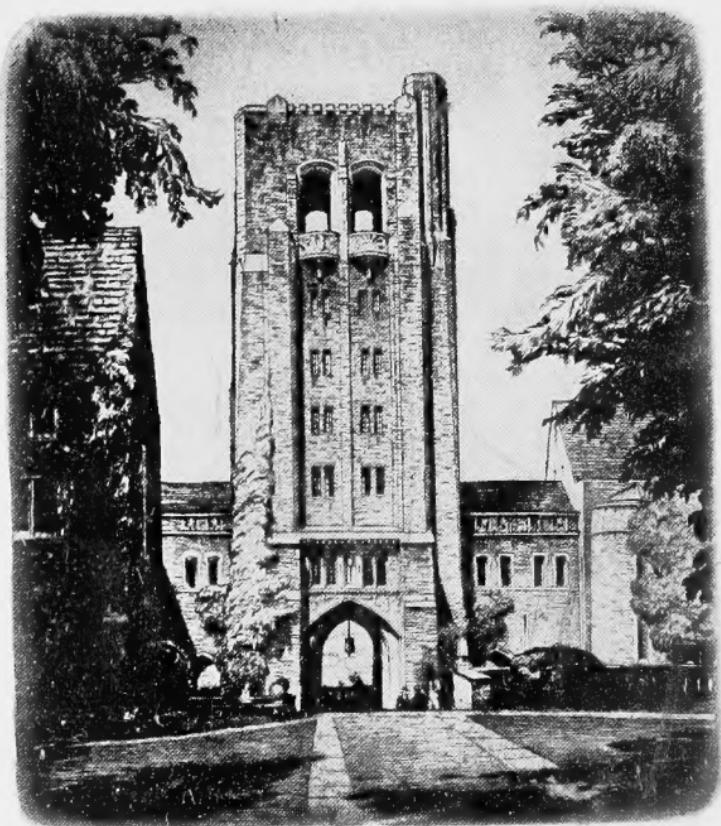


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# A TRUSTEE'S HANDBOOK.



A

# TRUSTEE'S HANDBOOK.

BY

AUGUSTUS PEABODY LORING,

A.B., LL.B., HARV.

OF THE SUFFOLK BAR.

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## P R E F A C E.

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THIS little book is meant to state, simply and concisely, the rules which govern the management of trust estates, and the relationship existing between the trustee and beneficiary.

The lack of a Handbook of this kind has led me to complete and publish what were originally notes for personal use merely.

As the book is for general as well as professional readers, the citations are illustrative, with an approach to completeness only where the law is doubtful or conflicting. But pains has been taken to notice the peculiarities of local State law, especially where dependent on statute.

I wish to acknowledge my obligation to the writers of the many admirable text books which bear on my subject, all of which I have used freely, and to which I have referred often for a fuller discussion of principles and a more complete citation of authorities; and I have to thank Mr. Edward A. Howes, Jr., for his valuable assistance in digesting cases and passing this volume through the press.

AUGUSTUS PEABODY LORING.

## N O T E.

THE citations of the following text books are thus abbreviated:—

Lewin on Trusts, 9th Eng. ed., is cited as "Lewin."

Perry on Trusts, 4th Amer. ed., 2 vols., is cited as "Perry."

Underhill on Trusts and Trustees, Amer. ed. Wislizenus, is cited as "Underhill."

Flint, Trusts and Trustees, is cited as "Flint."

# CONTENTS.

---

TABLE OF CASES . . . . .	xix
--------------------------	-----

## PART I.

### THE TRUSTEE AS AN INDIVIDUAL.

	PAGES
<b>I. THE OFFICE OF TRUSTEE IS NOT ALWAYS DESIRABLE .</b>	<b>1-2</b>
Because he	
Cannot come in competition with trust estate . . . . .	1
Cannot delegate the management. . . . .	1
Cannot render expert services freely . . . . .	1
Is restricted in his dealings with the beneficiary . . . . .	2
His only reward — compensation . . . . .	2
<b>II. DISCLAIMER . . . . .</b>	<b>2-4</b>
Acceptance necessary; may disclaim . . . . .	2
But dry trust may vest in representatives of sole trustee .	2
No special form of disclaimer is necessary . . . . .	3
It should be affirmative and decided . . . . .	3
By deed. In Probate Court when instrument is a will	3
Must disclaim whole trust . . . . .	3
May disclaim executorship or trusteeship . . . . .	3
Exceptions . . . . .	3
May disclaim one of two separate trusts . . . . .	4
Effect of disclaimer . . . . .	4
Vests title in other trustees . . . . .	4
Joint power lost by . . . . .	4
<b>III. ACCEPTANCE . . . . .</b>	<b>4-6</b>
Should be formal . . . . .	4
What is construed as an acceptance . . . . .	5
Presenting will . . . . .	5
Doing any act to execute trust. . . . .	5
Not disclaiming in reasonable time . . . . .	6



	PAGES
Cannot abandon trust . . . . .	17
Resignation . . . . .	17-18
Must be accepted either by all interested . . . . .	17
Who are interested for this purpose . . . . .	17
Or by court. What court . . . . .	17
Where there is more than one trust in same instrument, must resign both unless devisable . . . . .	18
Removal . . . . .	19-21
Matter is addressed to discretion of court . . . . .	19
Probate Court has statutory jurisdiction . . . . .	19
Any court of equity in absence of statute . . . . .	19
All interested in trust are parties . . . . .	19
Removed for	
Waste and mismanagement . . . . .	19-21
Wilful breach of trust . . . . .	19
Property insecure . . . . .	20
Unreasonable prejudice . . . . .	20
Unreasonable disagreement . . . . .	20
Will not remove	
For poverty . . . . .	20
Caprice of beneficiary . . . . .	20
Unpleasant relations with beneficiary . . . . .	20
For non-exercise of or manner of exercise of discretionary powers, unless prejudiced or unreasonable . . . . .	21
For technical breach of trust . . . . .	21
For breach of trust through mistake . . . . .	21

## PART II.

### THE INDIVIDUAL AS TRUSTEE.

#### I. INCIDENTS OF THE TRUST ESTATE.

The legal and equitable estate in every trust.

OWNERSHIP OF TRUST PROPERTY ABSOLUTE IN TRUSTEE . . . . .	22-26
Incidents of ownership fall to trustee . . . . .	23
Suing and being sued . . . . .	23-24
No right of action if trustee barred . . . . .	24
Is stockholder in corporation . . . . .	24
Is personally bound by contracts . . . . .	24
Is liable to taxation . . . . .	25
Is liable in tort and criminally . . . . .	26

	PAGES
<b>OWNERSHIP NOT BENEFICIAL . . . . .</b>	<b>26-29</b>
Can take nothing but established compensation . . . . .	27
Cannot set off debts in equity . . . . .	27
Cannot use the property . . . . .	27
Cannot buy the trust property . . . . .	27
Cannot borrow trust property . . . . .	28
Cannot buy up claims at discount . . . . .	28
May in some States render estate expert services for hire, in others not . . . . .	28
Must account for any benefit received . . . . .	29
<b>OWNERSHIP SHOULD NOT BE A BURDEN . . . . .</b>	<b>29-30</b>
Can charge legitimate expenses. What are . . . . .	29-30
Entitled to reasonable compensation. What is . . . . .	30-33
Commissions allowed in various States . . . . .	33-36
<b>TRUSTEE'S ESTATE . . . . .</b>	<b>37-38</b>
In real estate; only what is needed . . . . .	37
In personal; absolute . . . . .	37
In Code States, no title, and is holder of power only . . . . .	37
Is entitled to possession at law . . . . .	38
Possession of beneficiary is that of trustee . . . . .	38
Estate is joint; cannot be severed . . . . .	38
<b>TRANSMISSION OF THE TRUSTEE'S ESTATE.</b>	
Alienation . . . . .	39-45
<i>Inter vivos</i> . . . . .	39-44
May convey at will. Effect of conveyance . . . . .	39
Purchaser for value without notice, who is and is not . . . . .	39-40
Title will not pass under general assignment . . . . .	40
Cannot be taken for trustee's individual debts . . . . .	41
Subject to execution for trust debts . . . . .	41
To what extent . . . . .	41
Set-off . . . . .	42
Title passes to remainderman even if equitable . . . . .	42
Passes to successor; how . . . . .	43
Forfeiture . . . . .	43
<i>On death of trustee</i> . . . . .	43
Vests in survivor . . . . .	43
On death of sole trustee vests in . . . . .	44
General devisee when . . . . .	44
Heir or personal representatives when . . . . .	44

## II. POWERS.

## IN GENERAL.

	PAGES
What powers treated . . . . .	44
WHAT POWERS A TRUSTEE HAS . . . . .	44
As incidental . . . . .	45-47
Granted by court or statute . . . . .	45
Granted by maker of trust . . . . .	46
VESTING OF POWERS . . . . .	46
When powers do not vest in trustee . . . . .	46
Vest in all trustees jointly . . . . .	46
Pass to successors and survivors when . . . . .	46-47
General powers . . . . .	47
Special powers . . . . .	47
EXECUTION OF POWERS . . . . .	47-48
The essential part of a power . . . . .	47
Joint execution necessary . . . . .	48
Exception about collecting money . . . . .	48
DELEGATION . . . . .	48-49
Cannot delegate essentials . . . . .	48-49
Can delegate non-essentials . . . . .	49
PARTIAL OR DEFECTIVE EXECUTION . . . . .	49-51
Defective execution aided for purchaser . . . . .	50
Substantial execution of essentials confirmed . . . . .	50
Literal execution of prescribed non-essentials necessary . . . . .	50
Consent, etc. . . . .	50
CONTROL OF COURT OVER EXECUTION . . . . .	51
Will control obligatory powers . . . . .	51
Will ratify when . . . . .	51
Will not control discretionary powers . . . . .	51-52
Will not inquire reasons . . . . .	52
May consider reasons if given . . . . .	52
Will set aside for fraud . . . . .	52-53
EXTINCTION OF POWERS . . . . .	53
By death of person having discretion . . . . .	53
Expiration or accomplishment of trust . . . . .	53
Exhausted by what . . . . .	53-54

III. PARTICULAR POWERS.		PAGES
<b>POWER OF SALE</b>		54-60
Not a general power		54
Usual power in trust instruments		54
Usual power under statutes		55-56
Court of equity may decree sale		57
<b>EXECUTION OF POWER</b>		58
Must be accurate		58
Defective aided when. Under statutes		58
By court		58
Purchaser takes risk of what		59
Purchaser must see to application of purchase money when		59
<b>PLEDGE OR MORTGAGE</b>		60-61
Not a general power		60
When given by statute		60
Court will not order		60
Power to sell does not include		60
May give power of sale mortgage		61
<b>PARTITION AND EXCHANGE</b>		61
<b>LEASING</b>		61-63
What leases trustee can make		61-62
What leases are binding		61-62
Special power to lease		62
Liability on covenants		63
<b>TO SUE AND DEFEND</b>		63
May incur expense		63
All trustees must join		64
What admissions bind		64
May compromise		64
<b>TO CONTRACT</b>		64-65
Express contracts bind estate when		64
Trustee personally bound by contracts		65
Signing as "trustee".		65
<b>MAINTENANCE AND SUPPORT</b>		65-69
General power when		65
Special power how exercised		65
Mainly discretionary		65
General power how exercised		65
Discretion as to amount		67

	PAGES
Discretion as to amount reviewed when . . . . .	67
Discretion as to apportionment when more than one beneficiary . . . . .	68
MISCELLANEOUS . . . . .	68
Revocation . . . . .	69
Appoint successor . . . . .	69
IV. DUTIES.	
DUTIES TO THE BENEFICIARY OWING TO STATUS . . . . .	69
To support if unable to care for self . . . . .	69
When others have duty to support . . . . .	70
Beneficiary is not a stranger in matters outside of trust . . . . .	71
Contracts with beneficiary . . . . .	71
Must not take advantage of position . . . . .	71
Such transaction may be set aside . . . . .	72
May accept employment from beneficiary . . . . .	72
DUTIES IN EXERCISE OF OFFICE . . . . .	72
Must exercise utmost good faith in execution of trust . . . . .	72
Must be loyal to its and the beneficiary's interests . . . . .	73
Must not aid adverse claimants . . . . .	73
Must not come in competition . . . . .	73
Must consider interests of trust exclusively in its management . . . . .	73
Must prosecute suits . . . . .	73
Must not release securities . . . . .	74
DUTY TO EXERCISE TRUST PERSONALLY . . . . .	74
Cannot delegate to co-trustee or agent . . . . .	74
May employ agent where there is necessity . . . . .	76
May employ agent to perform ministerial acts . . . . .	76
DUTY TO ACCOUNT . . . . .	77
Must keep separate and accurate accounts . . . . .	77
Books open to inspection of beneficiary . . . . .	77
Must settle accounts periodically . . . . .	77
Entitled to settlement of account . . . . .	77
Form of account . . . . .	78
Effect of account . . . . .	79
Account in court . . . . .	79-80
Account between parties . . . . .	80
Expense of accounting . . . . .	80
May get instructions of court where duties doubtful . . . . .	81

	PAGES
WHERE THE TRUSTEE IS IN DOUBT AS TO HIS DUTY . . . . .	81-82
May notify beneficiary . . . . .	81
Cannot get instructions to enlighten ignorance . . . . .	81
Proper form of raising questions . . . . .	82
V. MANAGEMENT OF FUND.	
What may be trust property . . . . .	82
MUST TAKE STEPS TO SECURE PROPERTY AT ONCE . . . . .	82-85
Real estate. Place title in joint names . . . . .	84
Take possession of . . . . .	83
Personal property. Receipt for to settlor . . . . .	84
May not come into possession at once . . . . .	84
Must examine predecessor's account . . . . .	85
Transfer of stocks necessary . . . . .	85
Notice in case of equitable claims . . . . .	85
Should sue on all claims . . . . .	85
CARE AND CUSTODY . . . . .	86-88
Real estate. Should require tenant to attorn or take possession	86
Personal property. Trust chattels . . . . .	86
Money . . . . .	87
Non-negotiable securities . . . . .	88
Negotiable securities . . . . .	88
CONVERSION . . . . .	89-91
Usually necessary to some extent . . . . .	89
What should be converted . . . . .	89-90
Business, partnership, speculative, unproductive, undivided, or generally property not trust secu- rities . . . . .	89-90
Liability for delay . . . . .	90
What need not be converted . . . . .	90
Maker's reasonable investments . . . . .	90
Securities at a premium . . . . .	90
Property to be enjoyed in specie . . . . .	91
CONVERSION OF REAL INTO PERSONAL OR THE REVERSE . . . . .	91
May not convert without authority . . . . .	91
What is a conversion . . . . .	91-92
Authorized by statute . . . . .	92
Authorized by court . . . . .	92
Cy près . . . . .	92
Infant's estate . . . . .	92
Implied authority . . . . .	93

	PAGES
<b>INVESTMENTS . . . . .</b>	<b>93-104</b>
Must keep funds invested at all times . . . . .	93
Liable for simple interest . . . . .	93
Liable for compound interest when . . . . .	93
Change investments when . . . . .	94
Must invest securely and to get current return . . . . .	95
Trust investments, what are . . . . .	96
Determined by statute . . . . .	96
Determined by court . . . . .	96
Must exercise a sound discretion . . . . .	96
What is sound discretion . . . . .	97-98
Determined by condition of affairs at time of investing .	99
Margin of security . . . . .	99
Proportion in one security . . . . .	99
Investments allowed in various States . . . . .	100-103
<b>PRINCIPAL AND INCOME . . . . .</b>	<b>104-113</b>
Need of dividing . . . . .	104
Receipts. The estate paid in is principal . . . . .	104
Proceeds of conversion of securities . . . . .	104
Damages recovered . . . . .	106
Gain and loss . . . . .	107
Advance or depreciation in value . . . . .	107
Timber and gravel . . . . .	107
Chattels . . . . .	108
Farming stock . . . . .	108
Accumulated income . . . . .	108
Dividends. Current . . . . .	109
On wasting investment . . . . .	109
Extra dividend . . . . .	109-110
Stock dividend . . . . .	109-111
Rents . . . . .	112
Interest, generally income . . . . .	112
May require apportionment . . . . .	112-113
Bonds bought at premium . . . . .	112
Apportionment at end of life estate . . . . .	113
<b>PAYMENTS . . . . .</b>	<b>113-117</b>
Discharge of encumbrances . . . . .	113
Alterations and repairs . . . . .	114-115
When principal and when income . . . . .	114
On newly acquired property . . . . .	115
Taxes. Ordinary . . . . .	115
Betterment and extraordinary . . . . .	115

	PAGES
Insurance. Premiums . . . . .	115-116
Proceeds of policy . . . . .	116
Expenses. Care of property . . . . .	117
Brokers' charges . . . . .	117
Legal expenses . . . . .	117
<b>DISTRIBUTION . . . . .</b>	<b>117-119</b>
At risk of trustee . . . . .	117
May have decree of distribution . . . . .	118
Who bound by decree . . . . .	118
Should not be by fictitious account . . . . .	118
Payment to an attorney . . . . .	119
Compensation for . . . . .	119

## VI. TRUSTEES' LIABILITIES.

To STRANGERS. See Incidents of Ownership, <i>supra</i> . . . . .	120-121
Criminally for embezzlement . . . . .	120-121
<b>To BENEFICIARIES . . . . .</b>	<b>121-129</b>
Are joint and several . . . . .	121
Each transaction stands alone . . . . .	121
For neglect of duty . . . . .	121
Whether damage is directly or indirectly the result .	122
For crimes of strangers where there is neglect . . . . .	122
Not for act and default of co-trustee . . . . .	122
Unless one joined in the breach of trust . . . . .	122
Or contributed by neglect . . . . .	122-123
Or gave joint bond . . . . .	122
Contribution from co-trustee . . . . .	124
For errors of judgment . . . . .	125-127
In investing . . . . .	125
Paying to wrong person . . . . .	125
Must use average discretion . . . . .	125
Otherwise where discretionary power . . . . .	126
Measure of damage . . . . .	127
Interest simple. Compound when . . . . .	127
May be required to replace property . . . . .	127-128
Liability terminated . . . . .	128
By death . . . . .	128
Release . . . . .	128

	PAGES
Account and apportionment of successor . . . . .	128
Statute of limitations . . . . .	128
Insolvency . . . . .	128
Successor's taking over property . . . . .	128-129

## PART III.

### THE BENEFICIARY.

I. WHO MAY BE A BENEFICIARY . . . . .	130
Who is the beneficiary . . . . .	131
II. THE ESTATE OF THE BENEFICIARY . . . . .	132-140
Incidents of the equitable estate . . . . .	132
Will descend like other property . . . . .	133
Dower and curtesy . . . . .	133
May be alienated . . . . .	133
What estate passes . . . . .	134
Priority . . . . .	134
Notice . . . . .	135
Restraint on alienation . . . . .	136
Tendency of modern jurisprudence . . . . .	136
Exception as to married women . . . . .	136
Rules in various States . . . . .	137-138
Spendthrift trust made by cesser . . . . .	138
Support of family . . . . .	139
Condition over on alienation . . . . .	139-140
III. RIGHTS OF BENEFICIARY AGAINST TRUSTEE . . . . .	140-147
Where enforced . . . . .	140
How enforced . . . . .	140-141
Can compel what . . . . .	141
Damages for breach of trust . . . . .	142
Special rights . . . . .	142-147
Right to information . . . . .	143
Right to income . . . . .	143-144
Right to support . . . . .	144
Right to conveyance . . . . .	145-146
Right to possession . . . . .	147
Rights lost . . . . .	147-149
By Release . . . . .	148
Assent . . . . .	148-149
Acquiescence . . . . .	149
Statute limitations . . . . .	149

	PAGES
<b>IV. RIGHTS AGAINST STRANGERS . . . . .</b>	<b>149-153</b>
To constitute transferee of property trustee . . . . .	149-150
May follow as long as can identify . . . . .	150
Money may be followed . . . . .	151
Must elect whether to hold trustee or follow . . . . .	151-152
Rights to pursue stranger aiding breach of trust . . . . .	152
What is notice of trust . . . . .	152
Rights where disturbed in possession . . . . .	153
<b>V. LIABILITIES . . . . .</b>	<b>153-154</b>

## PART IV.

### INTERSTATE LAW.

Trust invalid in jurisdiction where sought to be enforced .	155
Trust can be enforced . . . . .	155
Where trustee is . . . . .	155
Where property is . . . . .	155
Where trust is established by judicial decree . . . . .	155
Non-resident trustees . . . . .	156
Foreign investments . . . . .	157
Taxation . . . . .	157-158
<hr/>	
<b>INDEX . . . . .</b>	<b>159</b>

## TABLE OF CASES.

---

	Pages		Pages
ABBOTT, Adm'r, Pet'r	40	Bahin <i>v.</i> Hughes	124
<i>v.</i> Foote	134, 154	Bailey, Pet'r	47
Abell <i>v.</i> Brady	33, 34	<i>v.</i> Lloyd	135
Adair <i>v.</i> Brimmer	148	<i>v.</i> N. Eng. Mut. L. Ins. Co.	153
Adams <i>v.</i> Adams	6, 113	Bailie <i>v.</i> McWhorter	137
Albert <i>v.</i> City of Baltimore	152	Baker <i>v.</i> Lorillard	56, 57
Aldrich <i>v.</i> Aldrich	67	<i>v.</i> Tibbets	26
Allen <i>v.</i> Gillette	27	Barclay <i>v.</i> Wainewright	109
Alley <i>v.</i> Lawrence	50	Barker <i>v.</i> Barker	142, 151
Alling <i>v.</i> Alling	71	<i>v.</i> Mercantile Ins. Co.	24
Ames <i>v.</i> Armstrong	122	Barker's Trusts, In re	14
<i>v.</i> Scudder	87	Barnes <i>v.</i> Dow	137
Amory <i>v.</i> Green	99, 157	Barney <i>v.</i> Parsons	103
<i>v.</i> Lowell	80	Barrell <i>v.</i> Joy	30, 34
Anderson <i>v.</i> Mather	92	Bartlett <i>v.</i> Bartlett	133
Ansley <i>v.</i> Pace	56, 57	Barton's Trusts, In re	110
Anthony <i>v.</i> Caswell	25	Bassett <i>v.</i> Granger	80
Arguello, In re	87	Bate <i>v.</i> Hooper	104, 154
Arnold <i>v.</i> Brown	27	Bateman <i>v.</i> Davis	50
Arnould <i>v.</i> Grinstead	95	Bates <i>v.</i> McKinley	111
Atkins <i>v.</i> Albree	111	<i>v.</i> Underhill	123
Attorney Gen. <i>v.</i> Alford	93	Bayard <i>v.</i> Farmers' & Mechan-	
<i>v.</i> Briggs	56	ics' Bank	152
<i>v.</i> Gleg	38, 47, 48	Beach <i>v.</i> Beach	28, 38
<i>v.</i> Landerfield	13	Belchier, Ex parte	76
<i>v.</i> Proprietors, etc.	150	Belknap <i>v.</i> Belknap	134
BABCOCK <i>v.</i> Hubbard	33	Belmont <i>v.</i> O'Brien	46
Bacon <i>v.</i> Bacon	52	Beloved Wilkes' Charity, In re	52
Badger <i>v.</i> Badger	148	Benett <i>v.</i> Wyndham	26
Baer's Appeal	103	Benjamin <i>v.</i> Gill	73
Bagshaw <i>v.</i> Spencer	37	Bennett <i>v.</i> Colley	149
		Bergengren <i>v.</i> Aldrich	62

	Pages		Pages
Berger <i>v.</i> Duff	48, 49	Brown <i>v.</i> Gallatly	89
Biddle's Appeal	31, 32	<i>v.</i> Lambert's Adm'r	11
Billington's Appeal	92	<i>v.</i> Ricketts	28
Bird <i>v.</i> Chicago, I., & N. Rail- road	153	<i>v.</i> Wright	101
Black <i>v.</i> Ligon	62, 63	Browne <i>v.</i> Cross	149
Blacklow <i>v.</i> Laws	57	Brice <i>v.</i> Stockes	124
Blake <i>v.</i> Pegram	31, 32, 80, 121, 122, 124	<i>v.</i> Stokes	148
Blauvelt <i>v.</i> Ackermann	77	Bridge <i>v.</i> Conn. Life Ins. Co.	134
Bogle <i>v.</i> Bogle	18	Bridges <i>v.</i> Longman	61
Bohlen's Estate	55	Briggs <i>v.</i> Light Boat	13
Borel <i>v.</i> Rollins	61	Brinley <i>v.</i> Grou	110
Bostick <i>v.</i> Winton	53	Briscoe <i>v.</i> State	33
Bostock <i>v.</i> Foyer	49, 74, 122	Brittlebank, In re	53
Boston <i>v.</i> Robbins	64	Buckingham <i>v.</i> Morrison	30, 34
Boston Safe Dep. <i>v.</i> Mixter	55	Bull <i>v.</i> Bull	52
Bostwick, In re	70	Bullard <i>v.</i> Chandler	82
Bosworth, In re	81	Bullock, In re ; Good <i>v.</i> Lick- orish	138
Bouch, In re ; Sproule <i>v.</i> Bouch	110	Bumgarner <i>v.</i> Cogswell	9
Boursot <i>v.</i> Savage	38	Burgess <i>v.</i> Wheate	132, 133
Bowditch <i>v.</i> Banuelos	10, 15, 18	Burnett <i>v.</i> Lester	108
Bowen <i>v.</i> Penny	120	Burr <i>v.</i> McEwen	86
Bowers <i>v.</i> Evans	151	Bushong <i>v.</i> Taylor	65
Bowes <i>v.</i> Seeger	48	Busk <i>v.</i> Aldam	12
Bowker <i>v.</i> Pierce	30, 71, 90	CALDECOTT <i>v.</i> Brown	114, 115
Boyd <i>v.</i> Oglesby	36	Calhoun <i>v.</i> Furgeson	108
Boys <i>v.</i> Boys	91	Cann <i>v.</i> Cann	93
Bradbury <i>v.</i> Birchmore	30	Canoy <i>v.</i> Troutman	39
Bradby <i>v.</i> Whitchurch	81, 141	Carey <i>v.</i> Brown	23
Bradlee <i>v.</i> Andrews	67	Carruth <i>v.</i> Carruth	4, 19
Bradshaw <i>v.</i> Fane	61	Carson <i>v.</i> Carson	12
Bradstreet <i>v.</i> Butterfield	131	Cassell <i>v.</i> Ross	59
Brandenburg <i>v.</i> Thorndike	146	Cavin <i>v.</i> Gleason	151
Braswell <i>v.</i> Morehead	108	Chadbourn <i>v.</i> Chadbourn	64, 81
Broadway Bank <i>v.</i> Adams	137	Chadwick <i>v.</i> Heatley	119
Broeck <i>v.</i> Fidelity Co.	34	Chapin <i>v.</i> First Univ. Soc.	38
Brooks <i>v.</i> Jackson	32	Chase <i>v.</i> Chase	71, 140
Brough <i>v.</i> Higgins	116	<i>v.</i> Searls	134
Brown, Pet'r	110	Chawner's Will, In re	61
<i>v.</i> Desmond	140	Chester <i>v.</i> Rolfe	63
<i>v.</i> French	99	Claflin <i>v.</i> Claflin	145
		Clapp <i>v.</i> Ingraham	135

	Pages		Pages
Clark <i>v.</i> Beers	96, 100	Culp's Estate	20
<i>v.</i> Clark	38, 75, 123	Cummings <i>v.</i> Cummings	80, 95
<i>v.</i> Wright	151	Cunard's Trusts, <i>In re</i>	4
<i>v.</i> Platt	33	Curtis <i>v.</i> Smith	8, 140, 155
<i>v.</i> Iowa City	113		
Clarke <i>v.</i> Blackington	78, 128, 157		
<i>v.</i> Deveaux	131	DAGGETT <i>v.</i> White	4
<i>v.</i> Hayes	56	Dagley <i>v.</i> Tolferry	125
<i>v.</i> Hogeman	135	Darcy <i>v.</i> Croft	116
Cleveland <i>v.</i> Hallett	37	Davis's Appeal	36
<i>v.</i> State Bank	61	Davis, Pet'r	56
Clive <i>v.</i> Carew	139	<i>v.</i> Charles River Branch	
<i>v.</i> Clive	112	Railroad	23
Clough <i>v.</i> Dixon	87	<i>v.</i> Coburn	149
Cobb <i>v.</i> Fant	36, 111	Davoue <i>v.</i> Fanning	27, 128
Cochrane <i>v.</i> Schell	138	Dean <i>v.</i> Lanford	14, 18
Coffin <i>v.</i> Bramlitt	102	Deg <i>v.</i> Deg	151
Cogbill <i>v.</i> Boyd	83	Denholm <i>v.</i> McKay	27, 148
Coleman, <i>In re</i>	68, 139	Denike <i>v.</i> Harris	95
<i>v.</i> Railroad Co.	130	De Peyster <i>v.</i> Ferrers	44
Collier <i>v.</i> Munn	28	Devin <i>v.</i> Hendershott	22
Collins <i>v.</i> Serverson	67	Dexter <i>v.</i> Cotting	11, 131
Conybeare's Settlement, <i>Ex</i>		<i>v.</i> Phillips	112, 113
parte	14	Dickinson's Appeal	99
Cooley <i>v.</i> Scarlett	140, 155	Dixon <i>v.</i> Dixon	152
Coombs <i>v.</i> Jordan	59	<i>v.</i> Homer	31, 32, 39
Copeland <i>v.</i> Manton	135	Dodd <i>v.</i> Wilkinson	17, 129
Corle <i>v.</i> Monkhouse	105	<i>v.</i> Winship	78, 79, 82, 134
Corya <i>v.</i> Corya	87	Dodds <i>v.</i> Tuke	30
Costabadié <i>v.</i> Costabadié	52	Dodkin <i>v.</i> Brunt	6, 19
Cousins's Estate, <i>In re</i>	100, 126	Doe d. Raikes <i>v.</i> Anderson	40
Cowman <i>v.</i> Colquhoun	56	Dorr <i>v.</i> Boston	25
Cowper <i>v.</i> Stoneham	152	<i>v.</i> Wainwright	3, 87, 147
Cowx <i>v.</i> Foster	135	Downes <i>v.</i> Bullock	104
Cox <i>v.</i> Cox	105	Drake <i>v.</i> Crane	102
Crabb <i>v.</i> Young	51, 126	<i>v.</i> Price	12
Craig <i>v.</i> Craig	18, 19	<i>v.</i> Rice	134
Crane <i>v.</i> Hearn	123	Draper <i>v.</i> Stone	127
Creveling <i>v.</i> Fritts	27	Dublin Case	13
Crocker <i>v.</i> Dillon	12, 84, 154	Dunn <i>v.</i> Dunn	133
Cromie <i>v.</i> Bull	52	Durkin <i>v.</i> Langley	65
Cruce <i>v.</i> Cruce	94	Dyer . Riley	88
Cruger <i>v.</i> Halliday	18		

	Pages		Pages
EARL COWLEY <i>v.</i> Wellesley	107	Frazer <i>v.</i> Western	53
Earp's Appeal	106, 110, 111	Freedman's Co. <i>v.</i> Earle	132
Eldredge <i>v.</i> Heard	52	Freeman <i>v.</i> Cook	127
Elliott <i>v.</i> Sparrell	93	Frere <i>v.</i> Winslow	118
Ellig <i>v.</i> Naglee	51, 64	Frierson <i>v.</i> Branch	38
Ellis <i>v.</i> Barker	73	Fyler <i>n.</i> Fyler	104, 147
<i>v.</i> Boston, H., & E. Rail-			
road	4, 9, 18	GAMBLE <i>v.</i> Gibson	28, 102
<i>v.</i> Ellis	31	Garesché <i>v.</i> Priest	102
Emery <i>v.</i> Batchelder	101	Garland <i>v.</i> Garland	137
Evans's Estate	75, 151	Garvey <i>v.</i> Garvey	52
Evans <i>v.</i> John	2	Geaves, Ex parte	80, 83
Everett <i>v.</i> Drew	23, 65	George, In re	70
Ervine's Appeal	56, 70, 91	Gerry, In re	106
FAIRBANKS <i>v.</i> Sargent	135	Gibbons <i>v.</i> Mahon	110
Fairland <i>v.</i> Percy	41	Gillespie <i>v.</i> Smith	49
Fausset <i>v.</i> Carpenter	40	Glink <i>v.</i> La Fayette	16
Felch <i>v.</i> Hooper	140	Gloyd's Estate, In re	34
Fenwick <i>v.</i> Greenwell	121	Good <i>v.</i> Lickorish; In re Bul-	
Fernstler <i>v.</i> Seibert	153	lock	138
Fidelity Co. <i>v.</i> Glover	101	Goodrich <i>v.</i> Proctor	55
Fidler <i>v.</i> Higgins	91	Goodson <i>v.</i> Ellisson	145
Field <i>v.</i> Field	88	Gordon <i>v.</i> West	35, 117
Finlay <i>v.</i> Merriman	103	Graham <i>v.</i> Austin	74, 124
Fisher <i>v.</i> Wister	140	<i>v.</i> King	58, 74, 76
Fitzgerald, In re	32	<i>v.</i> Roberts	116, 117
Fleming <i>v.</i> Wilson	34	Granger <i>v.</i> Bassett	110, 111
Fletcher <i>v.</i> Greene	136	Gray <i>v.</i> Corbit	137
Flint <i>v.</i> Clinton Co.	5	Greason <i>v.</i> Keteltas	61
Flowers <i>v.</i> Franklin	108	Greene <i>v.</i> Mumford	25, 81, 82
Forbes <i>v.</i> Lothrop	133, 140	<i>v.</i> Smith	67, 71, 110
Forster <i>v.</i> Davies	21	Greenwood <i>v.</i> Coleman	37
Forward <i>v.</i> Forward	29	Griffin <i>v.</i> Pringle	33
Foster <i>v.</i> Bailey	119	Griffith <i>v.</i> Hughes	124, 148
<i>v.</i> Cockrell	135	Grinuell <i>v.</i> Baker	103
<i>v.</i> Elsley	82, 131	Groton <i>v.</i> Ruggles	12
<i>v.</i> Foster	79	Guion <i>v.</i> Pickett	7
<i>v.</i> Smith	140	Gunn <i>v.</i> Brown	145
Fox <i>v.</i> Storrs	16	HADDEN <i>v.</i> Spader	134
Franklin <i>v.</i> Osgood	47	Hagan <i>v.</i> Platt	104
Franklin Savings Bank <i>v.</i>		Hahn <i>v.</i> Hutchinson	138
Taylor	41	Hall <i>v.</i> Cushing	12

Pages	Pages
Hall <i>v.</i> Ditto 150	Houghton <i>v.</i> Davenport 41
Hallett, In re ; Knatchbull <i>v.</i> Hallett 151	Housman, In re 108, 116, 117
Hallows <i>v.</i> Lloyd 1, 83	Hovey <i>v.</i> Dary. 92
Halsey <i>v.</i> Tate 148	How <i>v.</i> Waldron 119
Halsted <i>v.</i> Meeker's Ex'rs 102	Howard <i>v.</i> Fay 151
Hamlin <i>v.</i> Hamlin 133	<i>v.</i> Gilbert 19
Hammond <i>v.</i> Granger 47	Howe <i>v.</i> Lord Dartmouth 91, 105
Hapgood <i>v.</i> Houghton 65	<i>v.</i> Ray 3
Harlow <i>v.</i> Cowdrey 44	Howland <i>v.</i> Green 117
Harrington <i>v.</i> Brown 27	Hoyt <i>v.</i> Latham 27, 149
Harrison <i>v.</i> Pepper 116	Hubbard <i>v.</i> Fisher 86
Harte <i>v.</i> Tribe 68	Hubbell <i>v.</i> Medbury 149
Hartman's Appeal 131	Hughes <i>v.</i> Chicago Co. 20
Harvard Coll. <i>v.</i> Amory 90, 96,	Hun <i>v.</i> Cary 125
<i>v.</i> Weld 55	Hunt, Appellant 97
Hassard <i>v.</i> Rowe 92	<i>v.</i> Gontrum 98, 101
Hawley <i>v.</i> James 49, 141	<i>v.</i> Perry 25, 158
<i>v.</i> Ross 131	<i>v.</i> Watkins 108
Haxall's Ex'rs <i>v.</i> Shippen 116, 117	Hutchison's Appeal 145
Haydel <i>v.</i> Hurck 51	INSURANCE Co. <i>v.</i> Chase 86
Heard <i>v.</i> Eldredge 106, 110, 117	<i>v.</i> Smith 141
Heath <i>v.</i> Bishop 137	Irvine <i>v.</i> Dunham 20
Heighe <i>v.</i> Littig 107	<i>v.</i> Irvine 13
Hemenway <i>v.</i> Hemenway 107, 112	Isherwood <i>v.</i> Oldknow 63
Hemphill's Appeal 103	Iverson <i>v.</i> Saulsbury 148
Henderson's Estate 145	JACKMAN <i>v.</i> Nelson 68
Hepburn <i>v.</i> Hepburn 114	Jackson <i>v.</i> Von Zedlitz 71, 136,
Herron <i>v.</i> Marshall 24	139
Hext <i>v.</i> Porcher 83	Jencks <i>v.</i> Alexander 14
Hibbard <i>v.</i> Lamb 47	Jenkins <i>v.</i> Lester 140, 155
Hilliard <i>v.</i> Fulford 118	<i>v.</i> Whyte 31, 79
Hills <i>v.</i> Putnam 67, 70, 81	Jennison <i>v.</i> Hapgood 32, 94, 127
Hinson <i>v.</i> Williamson 122	Jewett, Ex parte 92, 93
Hobbs <i>v.</i> Smith 137	Johnson <i>v.</i> Bridgewater 112
Hodges <i>v.</i> Bullock 151	<i>v.</i> Lawrence 31
Hoke <i>v.</i> Hoke 36	Johnstone <i>v.</i> Baber 56
Holmes <i>v.</i> Dring 98	Jones's Appeal 74, 75
Holt <i>v.</i> Hogan 53	<i>v.</i> Atch., Top., & S. Fé
Hopgood <i>v.</i> Parkin 76	Rd. 54, 55
Hopkinson <i>v.</i> Burghley 77	<i>v.</i> Dougherty 142
Horton <i>v.</i> Brocklehurst 122	<i>v.</i> Foote 68



	Pages		Pages
May <i>v.</i> May	31, 34, 66, 68	Mortlock <i>v.</i> Buller	59
Mayer <i>v.</i> Galluchat	28	Morville <i>v.</i> Fowle	38, 47, 74
McCann <i>v.</i> Randall	8, 141	Munroe <i>v.</i> Holmes	78
McCartin <i>v.</i> Traphagan	121, 124	Murray <i>v.</i> Feinour	94
M'Clanahan <i>v.</i> Henderson	73	Muscogee Co. <i>v.</i> Hyer	34
McCloskey <i>v.</i> Gleason	103		
McCoy <i>v.</i> Poor	150	NANCE <i>v.</i> Nance	103
McDonald <i>v.</i> Irvine	87, 91	Nash <i>v.</i> Coates	37
<i>v.</i> Kneeland	135	National Bank <i>v.</i> Insurance Co.	42
McIntire's Adm'r's <i>v.</i> Zanesville	96	Nelson <i>v.</i> Duncombe	63, 69
McKim <i>v.</i> Blake	127	New Eng. Trust Co. <i>v.</i> Eaton	82,
<i>v.</i> Doane	16	90, 94, 106, 107, 109, 115	
<i>v.</i> Hibbard	94, 127, 128	Newcomb <i>v.</i> Keteltas	62
McKnight <i>v.</i> Walsh	67, 68, 70	Newhall <i>v.</i> Wheeler	153
McLeod <i>v.</i> Evans	151	New York Co. <i>v.</i> Schuyler	134
McNeillie <i>v.</i> Acton	96	Neyland <i>v.</i> Bendy	73, 146
McPherson <i>v.</i> Cox	20	Nichols, Appellant	72, 148
McQueen <i>v.</i> Farquhar	61	<i>v.</i> Eaton	137, 139
Meeker <i>v.</i> Crawford	30, 31	Nickels <i>v.</i> Philips	21
Meeks <i>v.</i> Olpherts	24	Nobles <i>v.</i> Hogg	103
Mendes <i>v.</i> Guedalla	48, 88, 89, 152	Norcum <i>v.</i> D'Oench	47
Mercier <i>v.</i> West Kansas Land Co.	58	Norling <i>v.</i> Allee	26, 154
Merriam <i>v.</i> Hassam	150	Norris <i>v.</i> Clymer	55, 56
Meyers <i>v.</i> Bennett	41	North Adams Universalist	
Millen <i>v.</i> Guerrard	110	<i>Soc. v. Fitch</i>	6
Miller, Matter of	18	North Amer. Coal Co. <i>v.</i>	
<i>v.</i> Redwine	60	<i>Dyett</i>	65
Minot <i>v.</i> Prescott	50	Norton <i>v.</i> Norton	37
<i>v.</i> Tappan	108	<i>v. Phelps</i>	41
<i>v.</i> Thompson	90	Nugent <i>v.</i> Cloon	46
Mitchell <i>v.</i> Winslow	82	Nyce's Estate	98
Molton <i>v.</i> Henderson	24, 150	OCHILTREE <i>v.</i> Wright	48
Monell <i>v.</i> Monell	87, 123	Oeslager <i>v.</i> Fisher	92
Moore <i>v.</i> Eure	102	Old South Soc. <i>v.</i> Crocker	57
More <i>v.</i> Calkins	32	Oliver <i>v.</i> Court	58, 123
Morgan <i>v.</i> Kansas Pacific Rail-		Olney <i>v.</i> Balch	12
road	28, 141	Onslow <i>v.</i> Wallis	12
<i>v.</i> Moore	16, 42	Ord <i>v.</i> Noel	58, 59
Morrill <i>v.</i> Morrill	78	Ormiston <i>v.</i> Olcott	99, 157
Morse <i>v.</i> Hill	27, 79, 128, 132,	Ouseley <i>v.</i> Anstruther	94
	142, 148, 149	Overman's Appeal	137
Mortimer <i>v.</i> Ireland	17, 44	Owens <i>v.</i> Walker	67, 68

	Pages		Pages
PACE <i>v.</i> Pace	137	Powcey <i>v.</i> Bowen	63
Pace <i>v.</i> Pierce	37, 38	Premier Steel Co. <i>v.</i> Yandes	34
Pacific Bank <i>v.</i> Windram	135, 136	Presley <i>v.</i> Stribling	38
Packard <i>v.</i> Marshall	42	Prevost <i>v.</i> Gratz	148
Paddock <i>v.</i> Palmer	20	Proctor <i>v.</i> Heyer	52
Parcher <i>v.</i> Bussell	79	Purdie <i>v.</i> Whitney	55
Parker <i>v.</i> Ames	32	Pusey <i>v.</i> Clemson	36
<i>v.</i> Converse	16		
<i>v.</i> Johnson	106	QUACKENBOSS <i>v.</i> Southwick	20
<i>v.</i> Moore	14	Quin's Estate	133
Parsons <i>v.</i> Winslow	105, 113, 114, 115	RABY <i>v.</i> Ridehalgh	124, 148
Paschal <i>v.</i> Acklin	155	Rand <i>v.</i> Hubbell	110
Pass <i>v.</i> Dundas	124	Randolph <i>v.</i> E. Birmingham	
Pearson <i>v.</i> Jamison	48	Land Co.	100
Peck <i>v.</i> Sherwood	116	Ray <i>v.</i> Doughty	47
Peckham <i>v.</i> Newton	103	Reed <i>v.</i> Head	109
Pell <i>v.</i> De Winton	60	Reed <i>v.</i> Whitney	133
Pennell <i>v.</i> Deffell	151	Reid <i>v.</i> Mullins	73
People <i>v.</i> Townsend	26, 154	Rhoads <i>v.</i> Rhoads	145
Perkins's Appeal	28	Richardson <i>v.</i> Boston	25
Perkins <i>v.</i> Moore	12	<i>v.</i> Richardson	110
Perrine <i>v.</i> Newell	29, 30	Riddle <i>v.</i> Whitehill	149
<i>v.</i> Vreeland	126	Ridgley <i>v.</i> Johnson	48
Person <i>v.</i> Warren	13	Roberts <i>v.</i> Stevens	137
Philbrick's Settlement	12	Robertson <i>v.</i> Collier	108
Philippi <i>v.</i> Philippe	149	<i>v.</i> Johnston	137
Philips <i>v.</i> Philips	134	Robinson <i>v.</i> Robinson	93, 95, 125
Pierce <i>v.</i> Burroughs	115	<i>v.</i> Wheelwright	136
Piety <i>v.</i> Stace	28	Rogers <i>v.</i> Chase	40
Pinckard's Distributees <i>v.</i>		<i>v.</i> Dill	92
Pinckard's Adm'r	33	<i>v.</i> Rogers	6
Pitney <i>v.</i> Everson	31	Rome Exchange Bank <i>v.</i>	
Plympton <i>v.</i> Boston Dispens-		Eames	137
sary	113, 115	Roxburghe <i>v.</i> Cox	135
Poindexter <i>v.</i> Blackburn	108	Russell <i>v.</i> Grinnell	146
Pool <i>v.</i> Harrison	130	Ryan <i>v.</i> Porter	56
Pope <i>v.</i> Devereux	64	Ryder <i>v.</i> Bickerton	100
<i>v.</i> Farnsworth	148		
Porter <i>v.</i> Bank of Rutland	14	SALMON, In re	83, 99, 129
<i>v.</i> Woodruff	98	Samuel <i>v.</i> Samuel	139
Portsmouth <i>v.</i> Shackford	51	Sargent <i>v.</i> Sargent	12
Potter <i>v.</i> Couch	139	Saunders <i>v.</i> Haughton	108

	Pages		Pages
Saunders <i>v.</i> Vautier	145	Smith <i>v.</i> Towers	137
Schaffer <i>v.</i> Wadsworth	95, 147	Smyth <i>v.</i> Burns	102
Schenck <i>v.</i> Schenck	44	Snowhill <i>v.</i> Snowhill	91, 92
Schley <i>v.</i> Brown	57	Sohier <i>v.</i> Eldredge	114
Schluter <i>v.</i> Bowery Savings Banks	13	Spangler's Estate	117
School Dist. <i>v.</i> First Bank	42	Sparhawk <i>v.</i> Buell	119
Schouler, Pet'r	47	<i>v.</i> Sparhawk	20
Schwab <i>v.</i> Cleveland	26	Speidel <i>v.</i> Henrici	148, 149
Scott <i>v.</i> Rand	19, 20	Speight <i>v.</i> Gaunt	76
<i>v.</i> Ray	73	Sproule <i>v.</i> Bouch	110
Seamans <i>v.</i> Gibbs	145	Stanley <i>v.</i> Colt	56
Sears <i>v.</i> Choate	146	<i>v.</i> Stanley	136
Sergison, Ex parte	13	State <i>v.</i> Guilford	74, 75
Sever <i>v.</i> Russell	79	<i>v.</i> Platt	30
Shaw <i>v.</i> Cordis	112	Stearns <i>v.</i> Palmer	153
<i>v.</i> Paine	8, 19	Steib <i>v.</i> Whitehead	137
<i>v.</i> Spencer	40, 152	Stetson <i>v.</i> Bass	79
Sheets's Estate	12	Stevens <i>v.</i> Austen	44
Sheffield <i>v.</i> Parker	84	Stockdale <i>v.</i> South Sea Co.	152
Shepard <i>v.</i> Creamer	26	Stone, Ex parte	16
Shepherd <i>v.</i> Hammond	36	<i>v.</i> Godfrey	73
Sherman <i>v.</i> Parish	124	<i>v.</i> Littlefield	115
<i>v.</i> White	101	Story <i>v.</i> Gape	120
Sherrill <i>v.</i> Shuford	35	Stott <i>v.</i> Lord	47, 48, 64
Shirley <i>v.</i> Shattuck	35	<i>v.</i> Milne	126
<i>v.</i> Shirley	14	Stowe <i>v.</i> Bowen	122
Sholty <i>v.</i> Sholty	101	Strickland <i>v.</i> Symons	41
Shook <i>v.</i> Shook	39, 43	Sugden <i>v.</i> Crossland	29
Shuey <i>v.</i> Latta	101	Swale <i>v.</i> Swale	47
Shumway <i>v.</i> Cooper	91	Swartwout <i>v.</i> Burr	13
Simmons <i>v.</i> Oliver	103		
Sinclair <i>v.</i> Jackson	38, 62	TABOR <i>v.</i> Brooks	52
Singleton <i>v.</i> Lowndes	103	Taylor <i>v.</i> Buttrick	69, 71
Sise <i>v.</i> Willard	146	<i>v.</i> Davis	24
Slade <i>v.</i> Van Vechten	28	<i>v.</i> Hite	102
Slaney <i>v.</i> Watney	4	Teague <i>v.</i> Corbitt	29
Slauter <i>v.</i> Favorite	98, 101	Tebbs <i>v.</i> Carpenter	121
Slevin <i>v.</i> Brown	37	Tempest, In re	15
Slocum <i>v.</i> Slocum	53	Thayer <i>v.</i> Daniels	85, 135
Smith <i>v.</i> Barnes	143	<i>v.</i> Kinsey	83, 128, 129
<i>v.</i> Burgess	40	Third Nat. Bank <i>v.</i> Lange	40,
<i>v.</i> Knowles	5		59, 149
		Thomas <i>v.</i> Bowman	73

	Pages		Pages
Thomas <i>v.</i> Higham	18	Ward <i>v.</i> Kitchen	94
Thompson <i>v.</i> Finch	121, 124, 128	Warnecke <i>v.</i> Lembca	47
<i>v.</i> Murphy	137	Warren <i>v.</i> Ireland	41
<i>v.</i> Peake	40	Waterman <i>v.</i> Baldwin	60
Tillinghast <i>v.</i> Bradford	187	<i>v.</i> Spaulding	58
<i>v.</i> Coggeshall	133	Watts <i>v.</i> Howard	115, 116, 143
Tolles <i>v.</i> Wood	139	Wayman <i>v.</i> Jones	151
Townend <i>v.</i> Townend	28	Weaver <i>v.</i> Fisher	77
Townley <i>v.</i> Sherburne	122	Webb <i>v.</i> Dietrich	19
Treadwell <i>v.</i> Salisbury Mfg. Co.	82	<i>v.</i> Ledsam	48
Trull <i>v.</i> Trull	98	Webster <i>v.</i> Vandeventer	17, 46
Trust Co. <i>v.</i> Sheldon	49, 52, 82	Webster Bank <i>v.</i> Eldridge	10
Tryon, In re	4	Weeks <i>v.</i> Hobson	56, 92
Tucker <i>v.</i> State	101	Welch <i>v.</i> Allen	37
<i>v.</i> Tucker	102	Wemyss <i>v.</i> White	47
Turnbull <i>v.</i> Pomeroy	28, 31	Westcott <i>v.</i> Nickerson	104, 105
Tnrner <i>v.</i> Maule	7	Western Railroad Co. <i>v.</i> No- lan	38, 131, 153
Tuttle <i>v.</i> Gilmore	99, 126	Wetmore <i>v.</i> Porter	23, 150
<i>v.</i> Robinson	35	<i>v.</i> Truslow	15
U. S. TRUST Co. <i>v.</i> Roche	23, 60	Wheate <i>v.</i> Hall	54
Urann <i>v.</i> Coates	31	Wheeler <i>v.</i> Perry	12, 81
Utica Ins. Co. <i>v.</i> Lynch	93	White <i>v.</i> Albertson	38
VANDERBILT, In re	52	<i>v.</i> Cuddon	59
Vandever's Appeal	47, 64	<i>v.</i> Ditson	12, 121
Van Doren <i>v.</i> Olden	106, 111	<i>v.</i> Wiley	135
Van Vechten <i>v.</i> Terry	23	Whiteley, In re	99
Van Vronker <i>v.</i> Eastman	106, 113	Whitney <i>v.</i> Smith	29
Vaughton <i>v.</i> Noble	72	Wilding <i>v.</i> Bolder	14
Vetterlein <i>v.</i> Barnes	23	Wiles <i>v.</i> Gresham	121, 126
Vinton's Appeal	110	Wilkins <i>v.</i> Hogg	122, 124, 126
Vyse <i>v.</i> Foster	121	Williams <i>v.</i> Bradley	68
<i>v.</i> First Presb. Soc.		<i>v.</i> First Presb. Soc.	150
WADSWORTH, Matter of	47	<i>v.</i> Smith	67
Walker <i>v.</i> Beal	145	Williamson <i>v.</i> Berry	55, 92
<i>v.</i> Brooks	42	<i>v.</i> Williamson	144
<i>v.</i> Shore	147	Wilson <i>v.</i> Davisson	59
Wallston <i>v.</i> Braswell	135	<i>v.</i> Wilson	20, 52, 66, 131
Walton <i>v.</i> Follansbee	146	Wiltbank's Appeal	106, 111
Warburton <i>v.</i> Sandys	17	Winona Co. <i>v.</i> St. Paul Co.	13
Ward <i>v.</i> Harvey	150	Winthrop <i>v.</i> Atty. Gen.	74
		Wise <i>v.</i> Wise	2
		Woddrop <i>v.</i> Weed	49

	Pages		Pages
Womack <i>v.</i> Austin	95, 99	Wright's Trusts, In re	77
Wood <i>v.</i> Burnham	74	Wych <i>v.</i> East India Co.	24
<i>v.</i> Mather	93	Wylly <i>v.</i> Collins	41
Woodard <i>v.</i> Wright	30		
Woods <i>v.</i> Sullivan	108	YEACKEL <i>v.</i> Litchfield	142
Wootten <i>v.</i> Burch	108	Young <i>v.</i> Snow	146
Wormeley <i>v.</i> Wormeley	40, 60	<i>v.</i> Young	16
Wormly <i>v.</i> Wormly	59		
Worrell's Appeal	96	ZABRISKIE <i>v.</i> Wetmore	145



# A TRUSTEE'S HANDBOOK.

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## PART I.

### THE TRUSTEE AS AN INDIVIDUAL.

**I. Office not always Desirable.**— Trusteeship is not mere contract to manage property for another, but it is a relationship, involving many duties and liabilities.

It is not always desirable to be a trustee, and before undertaking any trust the individual should make a careful examination of the trust instrument to ascertain its particular provisions and what his duties and liabilities will be.<sup>1</sup> He should also examine the property to see that his personal interests will not conflict with his duties as trustee.

The duties of a trustee to his beneficiary require not only the highest good faith in their execution, but also the absence of conflicting personal interests, and often the sacrifice of personal convenience and chance of profit.<sup>2</sup>

An individual may be willing to trust the whole or some part of the management of his personal affairs to others; but a trustee must manage the trust affairs himself.<sup>3</sup> The individual might have important employment as broker or counsel for the trust estate, but if he is the trustee such services will be unpaid in some jurisdictions, or at least looked on with suspicion, or he might buy from the estate or sell property to it, but as trustee he is deprived of these privileges. Moreover, he is put in such

<sup>1</sup> Keckiwith, J., in *Hallows v. Lloyd*, 39 Ch. D. 691. *Infra*, p. 82.

<sup>2</sup> *Infra*, pp. 72, 74.

<sup>3</sup> *Infra*, p. 74.

confidential relationship to his beneficiary that any profitable business dealings which he has with the beneficiary are subject to suspicion, even where the trust property is not in question.<sup>1</sup>

In addition to the complications that may arise from the relationship to the beneficiary, the trustee assumes all the liabilities involved in the ownership of property, and for neglect or errors in judgment in its management.<sup>2</sup> He may be required to give bonds with sureties for the faithful performance of his duties.<sup>3</sup>

To counterbalance these possible disadvantages the trustee is entitled in America to compensation, generally to the same extent as an agent or factor who manages the affairs of others.<sup>4</sup> He is absolutely prohibited from taking any other benefit from the trust.<sup>5</sup>

**II. Disclaimer.**—No one need be a trustee against his will, since an acceptance of the office is necessary;<sup>6</sup> and the office may be refused or disclaimed at any time before acceptance, even though the trustee were nominated under his promise of acceptance.<sup>7</sup>

It is true that a trust estate may vest in the heir or representatives of a deceased trustee without possibility of disclaimer;<sup>8</sup> but in such case the heir or representative takes only the title to the property, and a limited trust to transfer the estate to the new trustee, when appointed, and if he is the personal representative to settle the accounts of the deceased trustee.

If the office is to be disclaimed it must be disclaimed at once and unequivocally, as otherwise an acceptance may be implied.<sup>9</sup>

<sup>1</sup> *Infra*, p. 71.

<sup>2</sup> *Infra*, p. 26.

<sup>3</sup> *Infra*, p. 10.

<sup>4</sup> *Infra*, p. 30.

<sup>5</sup> *Infra*, p. 27.

<sup>6</sup> Ga. Code (1895), § 3190.

<sup>7</sup> *Evans v. John*, 4 Beav. 35.

<sup>8</sup> *Co. Litt. 9 a.* *Infra*, p. 45.

<sup>9</sup> *Wise v. Wise*, 2 Jon. & La. 403.

No particular form of disclaimer is necessary; but it should be affirmative and decided. Although a simple verbal refusal to undertake the trust is sufficient, such a disclaimer would be unwise in most cases, and probably difficult of proof after a considerable period had elapsed.

In general the disclaimer should be in writing, and recorded where the settlement is recorded; and if the settlement is not recorded, then addressed and delivered to whomever has the custody of the instrument; that person being in most cases one of the beneficiaries.

If the trust instrument is a deed, then the disclaimer should be by deed, but not in the form of a reconveyance which presupposes an acceptance, and vesting of the estate; though in practice it would not probably be so construed.<sup>1</sup>

If the trust instrument is a will, a disclaimer filed in the Probate Court is appropriate, although the failure to qualify or give bond in court is usually construed as a disclaimer by statute;<sup>2</sup> but such a disclaimer cannot be set up by a person other than one for whose security the bond is given until some action is taken by the court.<sup>3</sup>

A trust must be disclaimed wholly, as trusts are not divisible,<sup>4</sup> and if an executor have the management of real estate given him, or the other administration of property in which he acts the part of a trustee as well as executor, he cannot separate his duties and accept part and disclaim the other.<sup>5</sup>

Where, however, a person is appointed executor and trustee under the same will, he may disclaim either office and accept the other, unless there appears to be an inten-

<sup>1</sup> Lewin, p. 207.

<sup>2</sup> Gen. Stat. Conn. (1888), § 490; Rev. Stat. Me. (1883), ch. 68, § 3; Rev. Stat. Mo. (1889), § 8689; Rev. Laws Vt. (1894), § 2608. But the refusal to give bond is treated as a ground for removal, not as a disclaimer, in some States. Rev. Stat. Ohio (1890), § 5983; Code Va. (1887), § 3420; Code Ala. (1896), § 4155.

<sup>3</sup> Howe *v.* Ray, 110 Mass. 298.

<sup>4</sup> In New Jersey trusts are divisible. Underhill, p. 420, n.

<sup>5</sup> See Shaw, C. J., in Dorr *v.* Wainwright, 13 Pick. 328, 331.

tion on the part of the testator that he should accept both or neither.<sup>1</sup>

It is said that when two trusts are created by the same instrument both must be disclaimed or accepted;<sup>2</sup> but the better view seems to be, that where they are wholly separate trusts not interdependent, and no intention appears that both or neither shall be accepted, one may be accepted and the other disclaimed.<sup>3</sup>

The effect of a disclaimer is to vest the whole estate in the trustees who accept,<sup>4</sup> and relates back to the time of the gift, and the result is the same as though the individual disclaiming had never been appointed.<sup>5</sup> As to the legal title the exact effect is less clear, but nevertheless it is held to be devested by the disclaimer.<sup>6</sup>

If, however, the trust instrument bestowed any power on all the trustees nominated, the disclaimer of one will destroy the power, and if a gift or legacy is attached to the office it will be lost by a disclaimer;<sup>7</sup> but a gift which is not attached to the office or conditional on its acceptance will not be affected by a disclaimer of the office.

If the individual were not consulted about the appointment, he may have the expense of consulting counsel and his costs.<sup>8</sup>

**III. Acceptance.** — An acceptance should be made formally according to the provisions of the trust instrument;<sup>9</sup> but if no manner is therein specified, if the settlement

<sup>1</sup> *Daggett v. White*, 128 Mass. 398.

<sup>2</sup> *Lewin*, p. 214, § 12. *Perry*, § 264, end.

<sup>3</sup> *In re Cunard's Trusts*, 48 L. J. (N. S.) 192; *Carruth v. Carruth*, 148 Mass. 431.

<sup>4</sup> Generally and by statute in Md. Pub. Gen. Laws (1888), Art. 93, §§ 288, 289.

<sup>5</sup> *Ellis v. Boston, H. & E. Railroad.*, 107 Mass. 1.

<sup>6</sup> *Lewin*, p. 208.

<sup>7</sup> *Slaney v. Watney*, L. R. 2 Eq. 418.

<sup>8</sup> *In re Tryon*, 7 Beav. 496.

<sup>9</sup> Ga. Code (1895), § 3190.

be by deed, then by joining in the deed, or if the trust be established by will, then by qualifying in the probate court, and by statute a person not so qualifying is held to have disclaimed, and a new trustee may be appointed.<sup>1</sup>

If an individual be named both executor and trustee, he will be construed to accept both offices if he presents the will for probate without disclaiming either.<sup>2</sup>

In absence of statute the executor or administrator accepts the decedent's trusts, and cannot disclaim them; but by statute the law is usually the reverse.

It is not unusual for a will to provide that the executors shall manage certain estates, and hold them in trust for certain purposes. In such cases the executors act as and really are trustees to that extent, and not executors, and should be qualified as trustees as well as executors, although in practice they often qualify as executors only. In some jurisdictions the sureties on the executors' bond will not be liable for his acts as trustee, but in other States they will.<sup>3</sup>

An acceptance will be implied if the individual intermeddles with the trust property, or performs any act to carry out the trust.<sup>4</sup> Hence, if a disclaimer is contemplated, care should be taken to avoid any assumption of authority, or voluntary interference with the trust estate, either as volunteer or agent, until the disclaimer has formally been made; since such assumption or interference will readily be construed as an acceptance. And a trustee who has acted as such cannot disclaim, even though the deed needed his signature and he has not signed.<sup>5</sup> He may, however, prove that the act from which an acceptance would be implied was done as agent, or was merely to protect the property until a trustee could be appointed,<sup>6</sup>

<sup>1</sup> Mass. Pub. Stat., ch. 141, § 18. *Supra*, p. 3.

<sup>2</sup> Flint, § 157. *Supra*, p. 3.

<sup>3</sup> *Infra*, p. 12.

<sup>4</sup> Kilbee *v.* Sneyd, 2 Molloy, 186.

<sup>5</sup> Flint *v.* Clinton Co., 12 N. H. 432.

<sup>6</sup> Smith *v.* Knowles, 2 Grant's Cases, 413.

or that he acted in some other capacity than that of trustee, and in that case disclaim; but the burden of proving it will be on him.

The estate vests in a transferee subject to disclaimer,<sup>1</sup> therefore if an appointment be known of and not disclaimed within a reasonable time, an acceptance will be implied; and the burden will fall on the appointee to show that he had no reasonable opportunity to disclaim.

**IV. Appointment.**—No trust will be allowed to fail for want of a trustee,<sup>2</sup> and if conveyance is made to one that cannot act, or if those who have been nominated disclaim, or if all the trustees die, the property will be held by whoever may have the title until a proper trustee can be appointed.

In case of need the court will appoint a temporary trustee or a receiver,<sup>3</sup> and may in certain contingencies administer the trust itself, though such a course is very unusual.<sup>4</sup>

The power to make an appointment will arise whenever the circumstances make it necessary, either in the nature of things, as in the case of the death or disclaimer of all the trustees, or whenever the provisions of the trust instrument prescribe it. As when the number of trustees sinks below the prescribed number,<sup>5</sup> or a trustee becomes disqualified by going abroad, or as it may be otherwise provided in the instruments, or when the safety of the fund or the proper administration of the trust requires an additional trustee.

But the power of appointment under the trust instrument will only arise under the exact terms specified therein, and

<sup>1</sup> *Adams v. Adams*, 21 Wall. 185.

<sup>2</sup> *North Adams Universalist Soc. v. Fitch*, 8 Gray, 421; *Dodkin v. Brunt*, L. R. 6 Eq. 580; *Civil Code Cal. (1885)*, § 2289; *Comp. Laws Dak. (1887)*, § 3959; *Code No. Dak. (1895)*, § 4302.

<sup>3</sup> *Brightly's Dig. Pa. (1894)*, p. 2030, § 18.

<sup>4</sup> *Rogers v. Rogers*, 111 N. Y. 228. *Infra*, p. 142.

<sup>5</sup> *Mass. Gen. Hosp. v. Amory*, 12 Pick. 445.

will not arise under similar terms ; as, for instance, a provision that a trustee shall be appointed on one of the trustees becoming "incapable," will not give rise to a power to appoint when one becomes bankrupt and therefore "unfit" but still "capable";<sup>1</sup> or in the case where the power to appoint arose on the refusal and neglect of the original trustee to execute the trusts, and he died without executing them, the power did not arise.<sup>2</sup>

**How the Trustee is appointed.** — If the trust instrument adequately provides a method to be pursued in making the appointment of a trustee, the court has no jurisdiction in the case, and the method prescribed must be carefully followed ; but if it becomes impossible to follow the method prescribed, the power is wholly lost, and the appointment must be made by the court.<sup>3</sup> As a matter of precaution, an appointment made under a power in a settlement should be recorded with the settlement.

In some States the power to appoint the trustee is given by statute to the beneficiary, and in others to the surviving trustee, but usually to the court.

If the trust is under a will, the Probate Court has jurisdiction of the estate and the appointment, even if made under the terms of the will, according to the prevailing statutory law, must be confirmed by a decree of the court, and a letter issued, although the trustee's powers in such cases come from the settlement, and not the court.<sup>4</sup>

The same is true if the trust be under the jurisdiction of the court for any reason.<sup>5</sup>

If for any reason, either to fill a vacancy, or for the security of the fund, or convenience of the beneficiaries,

<sup>1</sup> *Turner v. Maule*, 15 Jur. 761.

<sup>2</sup> *Guion v. Pickett*, 42 Miss. 77 ; *Underhill*, p. 400, n. 2.

<sup>3</sup> *Infra*, p. 50.

<sup>4</sup> The appointment of any voluntary trustee may be confirmed by court in *Maine Rev. Stat. (1883)*, ch. 68, § 15.

<sup>5</sup> In Maine a trust may be confirmed by court, and thus come under its jurisdiction. *Rev. Stat. Me. (1883)*, ch. 68, §§ 15, 16.

the appointment of a trustee is desirable, and the trust instrument does not contain an adequate provision for appointing the trustee, or if the person holding the power to appoint a trustee unreasonably refuses or neglects to act, the court will appoint a trustee upon the application of any person interested in the trust, whether in possession or remainder,<sup>1</sup> though it would not take any notice of the application of a stranger.

All persons in interest must be parties to the suit,<sup>2</sup> but less parties are required in some jurisdictions by statute.<sup>3</sup>

Ordinarily, jurisdiction in these matters is conferred on the Probate Court by statute; but in the absence of statute any court of chancery or equity will have jurisdiction among its ordinary powers.

The court will have jurisdiction and can appoint a trustee if the person who holds the title to the property is within its jurisdiction, or if the property itself is within its jurisdiction and there is a statute by which the title will vest in the new trustee appointed.<sup>4</sup> In the absence of such statute there is no way of vesting the title, and the court is powerless. The operation of the statute is to confiscate the title of the person out of the jurisdiction, and vest it in the appointee of the court.<sup>5</sup>

It is held that the court having original jurisdiction of a testamentary trust may make a subsequent appointment, although the property and holder of the title are both out of the jurisdiction,<sup>6</sup> but it is hard to see what effect the decree can have unless the trustee be aided by statute or be reappointed in the jurisdiction where the property lies. Statutes exist in some jurisdictions which authorize trus-

<sup>1</sup> Statutory provisions in most jurisdictions.

<sup>2</sup> *Shaw v. Paine*, 12 Allen, 293.

<sup>3</sup> *Pub. Gen. Laws Md.* (1888), Art. 16, § 212.

<sup>4</sup> *McCann v. Randall*, 147 Mass. 81. See *infra*, p. 140. *Annot. Stat. Col.* (1891), § 2535; *Gen. Stat. N. J.* (1895), p. 394, § 112.

<sup>5</sup> *McCann v. Randall*, 147 Mass. 81.

<sup>6</sup> *Curtis v. Smith*, 60 Barb. 9.

tees appointed in other States to recover trust property in the State where the statute exists.<sup>1</sup>

So too by statute, where the sole beneficiary has moved into a State and wishes the property there also, the court may appoint a trustee; but this case seems open to the same criticism as the foregoing.<sup>2</sup>

No attempt will be made to state the rules of procedure in such cases, since the matter is one of practice, though simple, requiring care and professional advice, as the consequences of administering a trust under a defective appointment may be serious, since the outgoing trustee is not relieved and is still liable for the trust, and the incoming trustee is acting wrongfully as trustee, and may incur heavy liabilities without any right to indemnity out of the trust estate.

**Appointment not Complete without Title to Property.**

— The appointment of a trustee is not complete until the title to the trust property is vested in him. The original trustees under a will get title to the real estate from that instrument itself, but do not get title to the personal estate until it is turned over by the executors, usually after a considerable interval.

The original trustees under a deed will have the property vested in them by the conveyance.

The property ordinarily vests in later appointees by express provisions of the trust instrument, which commonly provides that on the appointment of a new trustee he shall become entitled to and vested with the trust property;<sup>3</sup> but in order that the title shall pass under the terms of the instrument, all the prescribed conditions concerning the appointment must have been accurately fulfilled.<sup>4</sup>

<sup>1</sup> Ky. Stat. (1894), §§ 4709, 4711; Gen. Stat. N. J. (1895), p. 3685, § 9; Code Va. (1887), § 2630; Code W. Va. (1891), p. 680, § 4.

<sup>2</sup> Code Ala. (1896), § 4200.

<sup>3</sup> Ellis *v.* Boston, H., & Erie Railroad, 107 Mass. 1.

<sup>4</sup> Bumgarner *v.* Cogswell, 49 Mo. 259.

In many jurisdictions the property will vest in the new trustee by statutory provision;<sup>1</sup> but this vesting of title is usually confined to appointees of the court;<sup>2</sup> and even where the donee of the power is the Judge of Probate, the appointment being that of the individual and not of the court, the title will not pass under the statute.<sup>3</sup>

Where there is no adequate provision in the trust instrument and no statute applicable, conveyance must be made by whoever holds the title;<sup>4</sup> and where the court appoints, a well drawn decree will contain an order for the necessary conveyance.<sup>5</sup>

**Trustees' Bonds.** — Trustees under wills, and usually trustees appointed by the court, are required to give bond to the court for the faithful performance of their trust,<sup>6</sup> and the court may require an appointee under a power in the instrument to give bond if the circumstances require it.<sup>7</sup>

In testamentary trusts these bonds are required to be with sureties, unless the testator has expressly excused the trustee from furnishing them, or unless all parties in interest join in requesting the exemption. In such cases "all persons beneficially interested" refer only to persons in being and who have a present vested interest

<sup>1</sup> Perry, § 284, n. 6; Mass. Pub. Stat. (1882), ch. 141, § 6; Laws Del. (1893), p. 709, ch. 250, and p. 709, ch. 95; Gen. Stat. R. I. (1896), ch. 208, § 4; Brightly's Dig. Pa. (1894), p. 2030, § 26; Rev. Stat. Mo. (1889), § 8684; Gen. Stat. Conn. (1888), § 492; Gen. Stat. N. J. (1895), p. 3684, § 4.

<sup>2</sup> Pub. Gen. Laws Md. (1888), Art. 16, § 208; Gen. Stat. Kan. (1889), § 7168; Stat. Minn. (1894), § 4297; Annot. Stat. Wis. (1889), § 2094.

<sup>3</sup> Webster Bank *v.* Eldridge, 115 Mass. 424, amended by Stat. 1878, c. 254, § 1, so as to vest title in appointees under any written instrument.

<sup>4</sup> Loring *v.* Salisbury Mills, 125 Mass. 138, 141.

<sup>5</sup> Rev. Laws Vt. (1894), § 2612; Rev. Stat. Me. (1883), ch. 68, §§ 6, 7. For further discussion see pp. 43, 44, *infra*.

<sup>6</sup> Statutes in nearly all jurisdictions.

<sup>7</sup> Bowditch *v.* Banuelos, 1 Gray, 220.

in the estate, and not to persons unascertained and not in being.<sup>1</sup>

It is not unusual for a trustee, especially if he be a man of standing, to decline a trust where he is required to furnish security; and the wiser course seems to be to select the trustees with care, and trust to the carefulness of the selection, rather than to take a less desirable individual with security, since continual watchfulness is required to be sure that the security remains sufficient and that no depreciation is occurring, and bondsmen are difficult to collect from.

The amount of the bond required is sufficient to cover with a margin of fifty per cent the personal property in the trustee's hands, and, if there is a power of sale of real estate in the settlement, sufficient to cover the value of the real estate also.

A trustee who has not furnished sureties may be required to do so, if at a later time the court, on application of any one in interest, considers it necessary for the safety of the fund.

When the court orders a sale of real estate it will ordinarily order the trustee to file a bond sufficient to cover the price received, if such a bond has not already been given.

**V. Who is Trustee.**—The question of who is the trustee and who is to administer the trusts not unfrequently arises.

Any person who intermeddles with the trust property is a trustee *de son tort*, and is accountable as such to the same extent as though he were duly appointed.<sup>2</sup> As, for instance, the executor or administrator of a deceased trustee, or an executor administrator who meddles with the real estate of the deceased.<sup>3</sup>

<sup>1</sup> *Dexter v. Cotting*, 149 Mass. 92.

<sup>2</sup> *Brown v. Lambert's Adm'r*, 74 Va. 256.

<sup>3</sup> *Perry*, vol. 1, §§ 245-247, and cases cited.

An executor who has the duties of a trustee conferred on him by the will, as for instance the payment of an annuity out of part of the estate, even though he qualifies as executor only, has in regard to that property the powers he would have if he qualified as trustee.<sup>1</sup> That is to say, though the trustee calls himself an executor, if in fact he acts as trustee he is a trustee, and not an executor, in the eyes of the law. In Alabama, Massachusetts, and Maine the sureties on his bond as executor are liable for his acts as trustee,<sup>2</sup> but the rule is otherwise elsewhere.<sup>3</sup>

Where the same person is appointed executor and trustee under a will, he holds the property as executor until he has settled his account in the Probate Court as executor, crediting himself with any funds which he holds as trustee, or done some other notorious act of transfer.<sup>4</sup>

Where a power of appointment is given by the trust instrument and the donee appoints new trustees, the second set of trustees in point of time will not necessarily administer the trust;<sup>5</sup> but if the property be given to the second set to convert, or their discretion is relied on, they will take the property,<sup>6</sup> and it is immaterial whether the trusts can be carried out or not.<sup>7</sup>

Where a general power of appointment is exercised by will, the executors of the will, not the trustees, will carry out the trust, and where the power is special the same rule should prevail unless the appointment is directly to the objects of the bounty and was not meant to pass through the executor's hands.<sup>8</sup>

<sup>1</sup> *Wheeler v. Perry*, 18 N. H. 307; *Carson v. Carson*, 6 Allen, 397; *Sheets's Estate*, 52 Pa. St. 257.

<sup>2</sup> *White v. Ditson*, 140 Mass. 351; *Groton v. Ruggles*, 17 Me. 137; *Hall v. Cushing*, 9 Pick. 395; *Perkins v. Moore*, 16 Ala. 9.

<sup>3</sup> *Drake v. Price*, 5 N. Y. 430.

<sup>4</sup> *Crocker v. Dillon*, 133 Mass. 91, 98. See *infra*, p. 84.

<sup>5</sup> *Ames*, p. 460, n.; *Busk v. Aldam*, L. R. 19 Eq. 16.

<sup>6</sup> *Onslow v. Wallis*, 1 Hall & Twell, 513.

<sup>7</sup> *Philbrick's Settlement*, 34 L. J. Ch. 368; *Olney v. Balch*, 154 Mass. 318.

<sup>8</sup> *Sargent v. Sargent*, 168 Mass. 420.

**VI. Who can be a Trustee.**—Any person that has the capacity to hold the title to the property, and the right to exercise the powers, may be a trustee.

A corporation having such capacity and rights among its charter powers is such a person, and may be a trustee.<sup>1</sup>

An alien enemy or an alien in a jurisdiction where he cannot hold property could not be a trustee.<sup>2</sup>

The sovereign may be trustee, but the beneficiary cannot enforce the trust except by petition,<sup>3</sup> until the property is conveyed to some one amenable to the jurisdiction of the court.<sup>4</sup>

The trust estate may vest in a lunatic or infant, but they will be removable.<sup>5</sup> An infant may be compelled to convey by statute,<sup>6</sup> and so long as infants or lunatics hold the property the trust will be administered by the court through them or their guardians.<sup>7</sup> Having no discretion, they cannot act in trust affairs any more than they can in their own affairs,<sup>8</sup> and if one of three trustees is an infant or lunatic, action by the other two is barred.<sup>9</sup>

At common law a wife could not be a trustee for her husband, but she may be now in most jurisdictions under the statutory rules.<sup>10</sup>

A trustee should be “capable,” that is to say, a person having the legal and actual capacity to hold the title to the trust property and exercise the powers. Thus the trustee should be a person of full age and sound discretion.

He should be “fit,” that is to say, a person in whose

<sup>1</sup> *Attorney General v. Landerfield*, 9 Mod. 286; *Dublin Case*, 38 N. H. 577.

<sup>2</sup> *King v. Boys*, 3 Dyer, 283.

<sup>3</sup> *Briggs v. Light Boat*, 11 Allen, 157.

<sup>4</sup> *Winona Co. v. St. Paul Co.*, 26 Minn. 179.

<sup>5</sup> *Irvine v. Irvine*, 9 Wall. 617; *Swartwout v. Burr*, 1 Barb. 495.

<sup>6</sup> *Brightly's Dig. Pa.* (1894), p. 2033, § 46; *Gen. Laws R. I.* (1896), ch. 208, § 16; *Gen. Stat. N. J.* (1895), p. 3683, §§ 2, 3.

<sup>7</sup> *Ex parte Sergison*, 4 Ves. Jr. 147.

<sup>8</sup> *Person v. Warren*, 14 Barb. 488.

<sup>9</sup> *King v. Bellord*, 1 Hem. & M. 343. *Infra*, p. 48.

<sup>10</sup> *Schluter v. Bowery Savings Banks*, 117 N. Y. 125.

hands the property will be safe,<sup>1</sup> and who will be impartial in the administration of his trust. Thus a bankrupt is not a "fit" person, as being unsuccessful in his own affairs he is not likely to be successful in those of others, and a drunkard or person of dishonest or of bad character is unfit, since the property would not be safe in his hands.

So too a beneficiary is an unfit person, whether he be a life tenant or remainderman, since he will naturally be partial to his own interests;<sup>2</sup> and for similar reasons a near relation is objectionable, although in this country they are more often appointed than strangers. The fact of near relationship makes the trustee less able to withstand the importunities of their beneficiaries,<sup>3</sup> and moreover such a connection, especially where a parent or older relation is trustee for a child, is too often made an excuse for lax management, and the knowledge that a breach of trust is likely to be condoned not infrequently leads to disregard of strictly legal management, which is the only safeguard of trust estates. Deviation from the rules of strict accountability only too often leads to speculation and the loss of the property.

A court will not appoint a husband trustee for his wife,<sup>4</sup> and there is no resulting trust between husband and wife;<sup>5</sup> but there is nothing in the relationship of husband and wife absolutely preventing the appointment,<sup>6</sup> and the maker of the trust may make such an appointment. But where a husband is trustee for his wife, her equitable estate is supposed to be reduced to possession, and may be attached for his debts.<sup>7</sup>

<sup>1</sup> *In re Barker's Trusts*, 1 Ch. D. 43.

<sup>2</sup> *Ex parte Conybeare's Settlement*, 1 Weekly Rep. 458.

<sup>3</sup> *Wilding v. Bolder*, 21 Beav. 222; *Parker v. Moore*, 25 N. J. Eq. 228, 240.

<sup>4</sup> *Dean v. Lanford*, 9 Rich. Eq. 423.

<sup>5</sup> *Jencks v. Alexander*, 11 Paige, 619.

<sup>6</sup> *Porter v. Bank of Rutland*, 19 Vt. 410; *Livingston v. Livingston, 2 Johns. Ch. 537.*

<sup>7</sup> *Shirley v. Shirley*, 9 Paige, 363.

In this connection it may be said that the trust companies, which have of late years become so numerous, to a considerable extent do away with the element of personal risk attaching to an individual trustee ; but they lack the advantages of personal management. These companies sometimes fail from improper management as utterly as individuals do, and as a rule the lack of personal management results in securing the minimum return only on the amount invested, and lacks the great advantages often secured by the able personal oversight of individual trustees.

**VII. Appointment of Trustee.**—The maker of the trust in making his appointment is bound only by the consideration of the legal capacity of the individual, and may appoint a person actually incapable or unfit, and his appointee will be removed for cause only.<sup>1</sup>

The donee of a power to appoint may also use his discretion in determining the fitness and actual capacity of the appointee; but the power is not an arbitrary one, and if the appointment be of an unfit or incapable person the court may review it.<sup>2</sup>

If the holder of the power be himself a trustee, he should consult his beneficiaries and appoint some one agreeable to them ;<sup>3</sup> and should the matter of the appointment become a matter of litigation, the power, though discretionary, cannot be exercised without the assent of the court.

Where the court is called upon to appoint a trustee, it will appoint only a person who is actually and legally capable and fit, and within its jurisdiction ;<sup>4</sup> but it will have due regard to the wishes of the maker of the trust if they can be discovered.<sup>5</sup>

<sup>1</sup> Wetmore *v.* Truslow, 51 N. Y. 338.

<sup>2</sup> Shaw, C. J., in Bowditch *v.* Banuelos, 1 Gray, 220, 231.

<sup>3</sup> Perry, § 297.

<sup>4</sup> Rev. Stat. Ind. (1894), § 3410.

<sup>5</sup> In re Tempest, L. R. 1 Ch. 485, 487. See Perry, § 39 ; Story, Eq. Jur., 11th ed., vol. 2, § 1289 b; Underhill, p. 408.

In some cases the court will appoint a non-resident where the beneficiaries or part of the property is out of its jurisdiction.<sup>1</sup> In some jurisdictions it is forbidden to do so by statute,<sup>2</sup> but the statutes have been held unconstitutional.<sup>3</sup>

If all the beneficiaries agree on a person, the court will nearly always appoint him, even though he be a beneficiary or otherwise unfit.<sup>4</sup>

The laws of some States provide for a public trustee, who will be appointed whenever the beneficiary shows that his trustee is absent from the country or refuses to act.<sup>5</sup>

The regularity of the appointment by the court cannot be questioned in any collateral proceeding.<sup>6</sup>

**VIII. Devestment of Office.**—A trustee is discharged (1) by extinction of the trust, (2) by completion of his duties, (3) by such means as the instrument contemplates, (4) by consent of the beneficiaries, (5) by judgment of a competent court.<sup>7</sup>

The trustee's office may come to an end by the extinction of the trust. This may come to pass either by the completion of the purposes of the trust,<sup>8</sup> as, for instance, on the death of the life tenant and the vesting of the estate in the remainderman,<sup>9</sup> or in the case of a trust to enable a widow to support her children, on the remarriage of the widow,<sup>10</sup> or by the legal title and beneficial title merging in one person.<sup>11</sup>

<sup>1</sup> Ames, 250, n.; Brightly's *Dig.* Pa. (1894), p. 2039, § 84.

<sup>2</sup> *Rev. Stat. Ind.* (1894), § 3410.

<sup>3</sup> *Glink v. La Fayette*, 52 *Fed. Rep.* 857.

<sup>4</sup> *Young v. Young*, 4 *Cranch C. C.* 499.

<sup>5</sup> *Annot. Stat. Col.* (1891), §§ 4557-4559.

<sup>6</sup> *McKim v. Doane*, 137 *Mass.* 195.

<sup>7</sup> *Comp. Laws Dak.* (1887), § 3955; *Rev. Code N. Dak.* (1895), § 4298; *Civ. Code Cal.* (1885), § 2282.

<sup>8</sup> *Ex parte Stone*, 138 *Mass.* 476.

<sup>9</sup> *Morgan v. Moore*, 3 *Gray*, 319.

<sup>10</sup> *Fox v. Storrs*, 75 *Ala.* 265.

<sup>11</sup> *Parker v. Converse*, 5 *Gray*, 336.

If the trust itself continues and the trustee dies, or is under a natural disability, or one created by the trust instrument, if there be more than one trustee, the office will vest in the surviving or remaining trustees, even though there be a provision in the instrument for keeping up the number of the trustees.<sup>1</sup>

If he is disabled, the title will remain in him until a new trustee is appointed, and the powers will be suspended or vested in the court.

If a sole trustee dies, then in absence of statute his executor or administrator accepts his trusts and at common law cannot disclaim them, though in some States he may disclaim by statutory provision. In many States the statute provides that the executor or administrator does not succeed to the decedent's trusts, and in such cases the office vests in the court, or is in abeyance, and will vest in a successor when appointed; the person in whom the title to the property has vested in the meanwhile, not having the office of trustee in anything but a limited extent, namely, to preserve the property and act in an emergency to prevent a loss, and finally convey to the new trustee when appointed.<sup>2</sup>

It is the duty of the executor or administrator of a deceased trustee to settle the decedent's trust accounts, and his estate is liable for breaches of trust committed in his lifetime.<sup>3</sup>

The guardian of an insane person would stand in the same position as the executor of a deceased trustee.

The trustee cannot abandon his trust, and even if he conveys away the property he will still remain liable as trustee;<sup>4</sup> but he may resign.<sup>5</sup>

<sup>1</sup> Warburton *v.* Sandys, 14 Sim. 622.

<sup>2</sup> Mortimer *v.* Ireland, 11 Jurist, 721; Ames, 510, n. *Infra*, p. 45.

<sup>3</sup> Dodd *v.* Wilkinson, 41 N. J. Eq. 566; Perry, § 344.

<sup>4</sup> Webster *v.* Vandeventer, 6 Gray, 428.

<sup>5</sup> Mass. Pub. Stat. (1882), ch. 141, § 10.

**Resignation.** — The resignation in most jurisdictions may be at pleasure,<sup>1</sup> and in any jurisdiction for good reason.<sup>2</sup>

To be effective, the resignation must be made either according to an express provision of the trust instrument, or with the assent of all the beneficiaries or the court.<sup>3</sup>

The assent of the beneficiaries must be unanimous; hence, if some are under age, unascertained, unborn, or incompetent, a valid assent cannot be given by the beneficiaries, and resort must be had to the court.

The mere resignation and acceptance thereof will not convey the title to the property, but the trustee should then divest himself of the property by suitable conveyances, and complete his duties, and until he does so he will remain liable as trustee.<sup>4</sup>

Even where all persons in interest assent, it has been suggested that the resignation is not complete without the action of the court,<sup>5</sup> but it is, to say the least, doubtful; and especially as all persons who are likely to raise the question are concluded by their assent.

The resignation need not be in writing, and where a trustee has conveyed the trust property to a successor appointed by the court, there being no evidence of any direct resignation, one would be presumed.<sup>6</sup>

Ordinarily courts of probate have jurisdiction in these matters; but where it is not specially given to them, a court of equity will have the power to accept a resignation among its ordinary powers, and generally has concurrent jurisdiction where the probate court has the power.<sup>7</sup>

The court will not accept a resignation until the retiring

<sup>1</sup> *Bogle v. Bogle*, 3 Allen, 158; *Ellis v. Boston, H., & E. Railroad*, 107 Mass. 1; *Statutes, passim*.

<sup>2</sup> *Craig v. Craig*, 3 Barb. Ch. 76; *Dean v. Lanford*, 9 Rich. Eq. (S. C.) 423.

<sup>3</sup> *Cruger v. Halliday*, 11 Paige, 314.

<sup>4</sup> *Ibid.*

<sup>5</sup> *Matter of Miller*, 15 Abb. Pr. 277.

<sup>6</sup> *Thomas v. Higham*, 1 Bail. Eq. 222.

<sup>7</sup> *Bowditch v. Banuelos*, 1 Gray, 220.

trustee has settled his account,<sup>1</sup> and returned any benefit connected with the office,<sup>2</sup> and in some jurisdictions they will require a successor to be provided for.<sup>3</sup>

Where there is more than one trust in the same instrument, the rule for resignation is the same as for acceptance; viz. unless the trusts are divisible, all or neither must be resigned.<sup>4</sup>

**Removal.**—The court may remove a trustee for good cause;<sup>5</sup> but the application is addressed to the reasonable discretion of the court,<sup>6</sup> and each case, therefore, stands on its own merits.<sup>7</sup> The power is among the ordinary powers of a court of equity,<sup>8</sup> but jurisdiction in such cases is generally given to the probate courts by statute, and action should always be taken in the court having original jurisdiction of the trust.<sup>9</sup>

All persons interested in the trust must be made parties in a suit for a removal.<sup>10</sup>

Ordinarily a trustee will be removed who refuses to give bond,<sup>11</sup> or who has been guilty of a wilful breach of trust, or who wastes or mismanages the trust property, or who refuses to account,<sup>12</sup> or who is a minor, lunatic,<sup>13</sup>

<sup>1</sup> Statutes, *passim*.

<sup>2</sup> *Craig v. Craig*, 3 Barb. Ch. 76.

<sup>3</sup> Civ. Code Cal. (1885), § 2260; Comp. Laws Dak. (1887), § 3942; Rev. Code N. D. (1895), § 4285.

<sup>4</sup> *Carruth v. Carruth*, 148 Mass. 431.

<sup>5</sup> Statutes exist in most jurisdictions giving courts of probate jurisdiction to act in these matters.

<sup>6</sup> *Scott v. Rand*, 118 Mass. 215.

<sup>7</sup> A number of examples in *Underhill*, p. 393, n.

<sup>8</sup> *Dodkin v. Brunt*, L. R. 6 Eq. 580. As to who are interested, see *infra*, p. 131.

<sup>9</sup> *Howard v. Gilbert*, 39 Ala. 726. *Infra*, p. 140.

<sup>10</sup> *Shaw v. Paine*, 12 Allen, 293. As to who are interested, see *infra*, p. 131.

<sup>11</sup> See *supra*, p. 3, note 2.

<sup>12</sup> Stated to be the only causes in *Webb v. Dietrich*, 7 Watts & Sar. 401.

<sup>13</sup> Generally, but in some States expressly by statute. Rev. Stat.

drunkard,<sup>1</sup> or a person of such bad habits that the property is in danger in his hands;<sup>2</sup> and the fact that he is the testator's son and has a discretionary power of paying the income will not protect him if he mingles the funds with his own and refuses to account.<sup>3</sup>

So too they will remove a trustee who denies the trust or is unfriendly to it,<sup>4</sup> who unreasonably or corruptly disagrees with his co-trustee,<sup>5</sup> or who, having a discretionary power over payments to his beneficiaries, has an unreasonable prejudice or dislike to him which is likely to defeat the purposes of the settlement,<sup>6</sup> or favors one beneficiary to the prejudice of the others.<sup>7</sup>

It will sometimes, though not necessarily, remove a trustee who becomes a bankrupt,<sup>8</sup> or goes to reside permanently without the jurisdiction of the court;<sup>9</sup> but the court will not remove a trustee simply because he is poor,<sup>10</sup> or to satisfy the caprice of a beneficiary;<sup>11</sup> or because he is prejudiced against or dislikes a beneficiary where he has no discretionary power over the payments to

N. J. (1895), p. 3684, § 4; Gen. Stat. Conn. (1888), § 611; Rev. Stat. Me. (1883), ch. 68, § 4; Pub. Stat. N. H. (1891), ch. 198, § 8; Vt. Stat. (1894), § 2610; Pub. Stat. Mass. (1882), ch. 141, § 9.

<sup>1</sup> Generally; but in some States expressly by statute. Rev. Stat. Ohio (1890), §§ 6472, 6334; Brightley's Dig. Pa. (1894), p. 2035, §§ 59-61.

<sup>2</sup> The statutes existing in nearly all jurisdictions generally expressly cover one or more of the above cases. They should be referred to in each case.

<sup>3</sup> *Sparhawk v. Sparhawk*, 114 Mass. 356.

<sup>4</sup> *Irvine v. Dunham*, 111 U. S. 327; *Quackenboss v. Southwick*, 41 N. Y. 117.

<sup>5</sup> *Infra*, p. 47.

<sup>6</sup> *McPherson v. Cox*, 96 U. S. 404; *Wilson v. Wilson*, 145 Mass. 490.

<sup>7</sup> *Scott v. Rand*, 118 Mass. 215.

<sup>8</sup> *Paddock v. Palmer*, 6 How. Pr. 215.

<sup>9</sup> *Culp's Est.*, 5 Pa. C. C. R. 582; Brightley's Dig. Pa. (1894), p. 2037, § 70; *Hughes v. Chicago Co.*, 47 N. Y. Sup. Ct. 531.

<sup>10</sup> *Jones v. McPhillips*, 77 Ala. 314.

<sup>11</sup> *McPherson v. Cox*, 96 U. S. 404.

him.<sup>1</sup> Nor will a trustee be removed for the non-exercise of, or the manner in which he exercises, a discretionary power, provided he is honest and reasonable in the use or non-use of his discretion. Nor will a trustee be removed for a technical breach of trust, or one made unintentionally or through mistake.<sup>2</sup>

<sup>1</sup> *Nickels v. Philips*, 18 Fla. 732; *Forster v. Davies*, 4 DeG., F. & J. 133.

<sup>2</sup> *Perry*, §§ 275 to 287, and *Underhill*, p. 393, n., for other instances.

## PART II.

### THE INDIVIDUAL AS TRUSTEE.

#### I. INCIDENTS OF TRUST ESTATE.

**Ownership.** — In every trust there are two estates, that of the trustee or the legal estate, and that of the beneficiary or the equitable estate.

These two estates are separate although bound together and travelling on parallel lines, and they will be treated separately in this treatise; the trustee's estate here, and the beneficiary's estate later on.<sup>1</sup>

The trustee's estate consists in the ownership of the property itself,<sup>2</sup> and the beneficiary's in his right in a court of equity to compel the trustee to carry out the provisions of the trust, but not in any estate in the property itself.

The tendency in America is to merge legal and equitable rights,<sup>3</sup> and for courts of law to act on equitable principles. Statutes that reduce the legal estate to a mere power, as in New York and other Code States, and the refusal of a court of law to allow trust property to be sold on execution, are examples of these tendencies that might be largely multiplied.<sup>4</sup>

Nevertheless a trustee in either a court of law or equity is the absolute owner of the trust property as to the whole world, and may eject even the beneficiary from the premises,<sup>5</sup> and is accountable to no one in the world but the

<sup>1</sup> *Infra*, p. 130.

<sup>2</sup> By statutory enactments in most Code States.

<sup>3</sup> Lowell, *Transfer of Stock*, § 37.

<sup>4</sup> *Infra*, p. 42.

<sup>5</sup> *Devin v. Hendershott*, 32 Iowa, 192.

beneficiaries for his use of the ownership.<sup>1</sup> The popular error that the trustee is merely the agent of the beneficiary expresses an entirely erroneous and mischievous conception of the trustee's relationship to the property and his beneficiary.<sup>2</sup> In a case of agency the principal owns the property, and the agent acts in his name and place; in a trust the trustee owns the property, acts in his own name, and the beneficiary has no property rights, but a claim against the trustee only.

In the case of an agency the person with whom the agent contracts may sue his principals on the contract; he has no such rights against the beneficiaries in a trust.<sup>3</sup>

**As Owner of the Property, all the Incidents of Ownership fall to the Trustee.** — All actions against strangers either in law or equity for damage to or loss of the property,<sup>4</sup> and all actions to protect or recover it, must be brought in the name of the trustee. And the trustee may sue and be sued without any joinder of the beneficiaries,<sup>5</sup> where the relations between the trustee and beneficiary are not in question, and his interests are adequately represented by the trustee;<sup>6</sup> but in foreclosure a beneficiary has the right to raise money, and so must be joined.<sup>7</sup> In some jurisdictions, as Alabama, New York, and South Carolina, beneficiaries are by statute necessary parties.<sup>8</sup>

If the beneficiary is in the possession of trust property he may sue for an injury to his possession to the same

<sup>1</sup> *Wetmore v. Porter*, 92 N. Y. 76.

<sup>2</sup> *Beach v. Beach*, 14 Vt. 28.

<sup>3</sup> *Everett v. Drew*, 129 Mass. 150.

<sup>4</sup> *Davis v. Charles River Branch Rd.*, 11 *Cush.* 506; *Morgan v. K. P. Rd. Co.*, 21 *Blatch.* 134.

<sup>5</sup> *Carey v. Brown*, 92 U. S. 171. Generally, but expressly by statute in many jurisdictions. See *infra*, p. 64.

<sup>6</sup> *Vetterlein v. Barnes*, 124 U. S. 169.

<sup>7</sup> *U. S. Trust Co. v. Roche*, 41 *Hun.* 549. *Contra, Var. Vechten v. Terry*, 2 *Johns. Ch.* 197.

<sup>8</sup> *Ames*, 261 *n.*

extent as any other bailee of property ;<sup>1</sup> but as against all the world other than the beneficiary, the trustee's right to possession is absolute, and cannot be questioned.

If the trustee's right of action is barred by the statute of limitations,<sup>2</sup> or if he lose his right of action in any manner, the right is absolutely lost,<sup>3</sup> and the beneficiary is equally barred and has no other rights which he can enforce against the property or a stranger.<sup>4</sup>

The trustee, and not the beneficiary, is entitled to vote as stockholder in corporations,<sup>5</sup> and the trustee, as an owner of stock, is eligible as a director, and the beneficiary is not.<sup>6</sup>

In the absence of statute to the contrary, the trustee is personally liable as stockholder even beyond the extent of the trust property,<sup>7</sup> but his liability is generally limited by statute to the extent of the trust estate.<sup>8</sup>

The trustee is personally liable on the contracts which he makes in respect to the trust property, and if he is not bound nobody is bound;<sup>9</sup> and this fact emphasizes the difference between a person acting as trustee who binds

<sup>1</sup> As to his rights, see *infra*, p. 149.

<sup>2</sup> *Wych v. East India Co.*, 3 P. Wms. 309.

<sup>3</sup> *Meeks v. Olpherts*, 100 U. S. 564.

<sup>4</sup> *Molton v. Henderson*, 62 Ala. 426.

<sup>5</sup> *Barker v. Mercantile Ins. Co.*, 6 Wend. 509; *Lowell, Transfer of Stock*, § 27; *Herron v. Marshall*, 42 Am. Dec. 444 and note.

<sup>6</sup> By statute in most States.

<sup>7</sup> *Ames*, 279, n.; *Lowell, Transfer of Stock*, § 28; *Lewin*, p. 252.

<sup>8</sup> *Pub. Stat. N. H.* (1891), ch. 150, § 20; *Rev. Stat. Me.* (1883), ch. 46, § 37; *Gen. Laws R. I.* (1896), ch. 180, § 26; *Rev. Stat. N. Y.* (1896), p. 1026, § 54; *Ind. Stat.* (1894), § 3431; *Annot. Stat. Ill.* (1896), ch. 32, § 23; *Stat. Minn.* (1894), § 3419; *Wash. Code* (1896), § 2661; *Mont. Civil Code* (1895), § 608; *Rev. Stat. Wy.* (1887), § 516; *Rev. Stat. S. C.* (1893), § 1500, cl. 1; *Rev. Stat. Fla.* (1892), §§ 2132, 2172; *D. C.*, *Cooley's Dig.* (1892), p. 162, § 130; *Comp. Laws N. M.* (1884), § 206; *Annot. Stat. Col.* (1891), ch. 30, § 495; *Pub. Gen. Laws Md.* (1888), Art. 23, § 66; unless he voluntarily invested in it, *N. Y.*

But not personally on contract in *Mutual Ins. Co., Mass. Pub. Stat.* (1882), ch. 119, § 85.

<sup>9</sup> *Taylor v. Davis*, 110 U. S. 330.

only himself, and one acting as agent who binds his principal.

It is erroneous to suppose that the trustee limits his liability by signing his name "trustee," or "as trustee,"<sup>1</sup> although his liability may be limited by appropriate words to the extent of the trust estates; but if he has the power to contract for the benefit of the trust, and if he properly describes himself as trustee, the contract will bind the trust effects in his hands and those of his successor, although recourse will be had to him in the first instance.<sup>2</sup>

So, too, a trustee will be personally liable on the covenants in a deed or lease, whether he signs as trustee or not; and it is important in this connection to bear in mind that there is an implied covenant for quiet enjoyment on behalf of the lessor in every lease.<sup>3</sup>

**Taxation.**—The trustee is personally liable for taxation. In the absence of statute, on the personal property where he resides, and on land where the land lies;<sup>4</sup> but statutes are not unusual making the personal tax payable where the beneficiary resides who is entitled to the income.

When both the trustee and beneficiary are non-resident, the personal property is not taxable to any one.<sup>5</sup>

A statute making the property taxable where the beneficiary lives, when neither the trustee nor the property are within the State, is constitutional.<sup>6</sup>

In many jurisdictions it is the trustee's duty to bring in a list of the trust property for taxation, and in others he may do so. A trustee who neglects his duty would be personally liable for the penalty of his neglect; and where he neglects his opportunity to file a list, and the property

<sup>1</sup> *Infra*, p. 65.

<sup>2</sup> *Infra*, p. 65.

<sup>3</sup> *Infra*, p. 63.

<sup>4</sup> *Richardson v. Boston*, 148 Mass. 508; *Greene et al. v. Mumford et al.*, 4 R. I. 313.

<sup>5</sup> *Dorr v. Boston*, 6 Gray, 131; *Anthony v. Caswell*, 15 R. I. 159; *Ames*, 279, n.

<sup>6</sup> *Hunt v. Perry*, 165 Mass. 287.

is over assessed, and owing to his neglect the over assessment cannot be recovered, he would probably not be able to charge the over assessment to the trust.

**Personally liable as Owner of Property.**—A trustee is personally liable as owner of property in actions for a nuisance, or for a negligent use of the property which causes damage.<sup>1</sup> As, for instance, he is liable to a person injured by snow from the roof of a building, or in failing to keep the sidewalk in repair, or causing water to overflow; but if the liability be incurred without fault of the trustee, he may charge the property, as where a person was injured by a falling limb from a tree, although the trustee had exercised all due care in having the wood cut;<sup>2</sup> but if the trustee was in fault,<sup>3</sup> he will have no right to indemnity, and if the damage is greater than the value of the trust property, he will be personally liable, irrespective of his right to indemnity from the trust property.<sup>4</sup> The action is against him personally, and it is immaterial that he is described in the writ as "trustee."<sup>5</sup>

So, too, a trustee may be criminally liable for a nuisance on the trust property,<sup>6</sup> or may be liable to indictment under liquor or gambling laws.

**The Trustee's Ownership is not Beneficial.**—Although the trustee is the absolute owner of the property, he can take no benefit from his ownership, and he may not deal with the estate for his own profit, or for any purpose unconnected with the trust.<sup>7</sup> All the benefits belong to the ben-

<sup>1</sup> *Schwab v. Cleveland*, 28 Hun, 458.

<sup>2</sup> *Benett v. Wyndham*, 4 DeG., F. & J. 259.

<sup>3</sup> *Norling v. Allee*, 13 N. Y. Supp. 791.

<sup>4</sup> *Underhill*, 426, n.

<sup>5</sup> *Shepard v. Creamer*, 160 Mass. 496; *Baker v. Tibbetts*, 162 Mass. 468.

<sup>6</sup> *People v. Townsend*, 3 Hill, 479.

<sup>7</sup> Cal. Civil Code (1885), § 2229; Comp. Laws Dak. (1887), § 3922; Code of Ga. (1895), § 3183; Rev. Code N. Dak. (1895), § 4265.

eficiaries, and the trustee has no more right to any of them than he has to the property of a stranger. All his skill and labor must be directed to the advancement of the interests of his beneficiaries.<sup>1</sup> He may take no benefit directly or indirectly from the estate or his office, except the regular compensation allowed by law, and if he take a present or be paid a bonus or commission of any kind in a trust transaction by a stranger, he must account to the trust for it.<sup>2</sup> He cannot set off his own debts in equity against one who sues him as trustee.<sup>3</sup>

He cannot use the real estate or chattels, or pledge any of the property, as security for his debts. Nor can he purchase them directly or indirectly at public or private sale,<sup>4</sup> except by arrangement with all the beneficiaries, or under leave of court,<sup>5</sup> or at a judicial sale which he does not control in any manner.<sup>6</sup> Nor can a husband or wife being trustee sell to the other,<sup>7</sup> even though the other be a beneficiary. It is immaterial that the price paid is a fair one. The transaction is a breach of trust, and may be set aside by the beneficiary,<sup>8</sup> but no stranger to the estate can question the transaction.<sup>9</sup>

If however the property be honestly sold to a third person, there being no scheme to repurchase, the trustee is not disabled from buying it subsequently.<sup>10</sup>

He cannot speculate with the trust funds under the

<sup>1</sup> *Arnold v. Brown*, 24 Pick. 89, 96.

<sup>2</sup> *Infra*, p. 28.

<sup>3</sup> *Infra*, p. 42.

<sup>4</sup> *Hoyt v. Latham*, 143 U. S. 553; *Morse v. Hill*, 136 Mass. 60; Amer. & Eng. Encyc. Law, vol. 27, p. 197.

<sup>5</sup> *Morse v. Hill*, 136 Mass. 60, 67.

<sup>6</sup> *Allen v. Gillette*, 127 U. S. 589.

<sup>7</sup> *Davoue v. Fanning*, 2 Johns. Ch. (N. Y.) 252. In *Lingke v. Wilkinson*, 57 N. Y. 445, it was held that a trustee might sell to his son, but two judges dissented, and the principle is very doubtful.

<sup>8</sup> *Denholm v. McKay*, 148 Mass. 434; *Davoue v. Fanning*, 2 Johns. Ch. (N. Y.) 252. *Infra*, p. 142.

<sup>9</sup> *Harrington v. Brown*, 5 Pick. 519.

<sup>10</sup> *Creveling v. Fritts*, 34 N. J. Eq. 134.

guise of a loan to himself;<sup>1</sup> if he does, all the profit will belong to the trust, and if the profit does not equal interest he must pay interest.<sup>2</sup>

He cannot borrow the trust funds on any security, and he should not lend them to his family or associates on any terms.<sup>3</sup>

He cannot swell his personal credit by keeping a large balance of the trust funds at his bankers.

He cannot come in competition with the trust estate, nor make a profit by buying up claims against the estate at a discount, directly or indirectly.<sup>4</sup>

By statute in some jurisdictions he cannot enforce a claim against the estate acquired, nor make a profit out of the trust estate in any other manner.<sup>5</sup>

Where the English rule prevails which refuses compensation to a trustee, he should not employ himself or his partner to render expert services to the estate, or if he does he may receive no compensation therefor. But in most other jurisdictions, if he could have given such employment legitimately to another, he may render it himself and receive reasonable compensation for his services; as, for example, where he acts as counsel, broker or agent to collect.<sup>6</sup> But the law is not uniform, and in some States he cannot take any compensation.<sup>7</sup>

In practice the matter is a delicate one, and it is a bet-

<sup>1</sup> *Brown v. Rickets*, 4 Johns. Ch. 303; *Townend v. Townend*, 1 Giff. 201.

<sup>2</sup> *Piety v. Stace*, 4 Ves. Jr. 620.

<sup>3</sup> *Kyle v. Barnett*, 17 Ala. 306.

<sup>4</sup> *Slade v. Van Vechten*, 11 Paige, 21; *King v. Cushman*, 41 Ill. 31.

<sup>5</sup> Comp. Laws Dak. (1887), § 3945; Rev. Code N. Dak. (1895), § 4288; Civ. Code Cal. (1885), § 2263.

<sup>6</sup> *Turnbull v. Pomeroy*, 140 Mass. 117, 118; *Lowrie's Appeal*, 1 Grant, 373; *Perkins's Appeal*, 108 Pa. St. 314. *Perry*, § 432, *contra*.

<sup>7</sup> He can take none in New York, Missouri, or South Carolina. *Collier v. Munn*, 41 N. Y. 143; *Gamble v. Gibson*, 59 Mo. 585; *Mayer v. Galluchat*, 6 Rich. Eq. 1. The reason assigned in some of the cases, namely, that a trustee cannot deal with himself, is manifestly unsound, as it is conceded that he can collect other expenses, etc.

ter rule to avoid the difficulty altogether by employing a stranger; but where such employment is allowed, the charge for expert services, together with the regular commission, should not amount to more than reasonable compensation for all the services rendered.<sup>1</sup>

He must pay over to the trust estate any bonus he receives in the performance of his duties, or for resigning the trust,<sup>2</sup> but he need not account for the profit which he receives from other business that he receives owing to the fact that he is trustee.<sup>3</sup>

**May have Expenses from Trust Fund.** — On the other hand, the trusteeship should not be a burden, and the trustee may pay from the estate all the expenses which he incurs as owner, such as taxes, repairs, and insurance, and he may charge the estate irrespective of the provisions of the settlement with all the legitimate expenses of management,<sup>4</sup> as travelling expenses,<sup>5</sup> the cost of justifiable litigation, and expense of consulting counsel when there is reasonable cause,<sup>6</sup> and if he be not at fault judgments recovered against him as owner of the property,<sup>7</sup> or, where the employment is reasonable and usual, the expense of brokers or agents, or the expense of looking after the beneficiary, as for instance having him declared insane and placed under guardianship;<sup>8</sup> and in some States the premium paid a surety company on his official bond may be charged to the estate.<sup>9</sup>

<sup>1</sup> *Turnbull v. Pomeroy*, 140 Mass. 117, 118; *Lowrie's Appeal*, 1 Grant, 373; *Perkins's Appeal*, 108 Pa. St. 314. *Perry*, § 432, *contra*. *Infra*, p. 32.

<sup>2</sup> *Sugden v. Crossland*, 3 Sim. & Giff. 192.

<sup>3</sup> *Whitney v. Smith*, L. R. 4 Ch. App. 513.

<sup>4</sup> *Perrine v. Newell*, 49 N. J. Eq. 58; *Perry*, § 910.

<sup>5</sup> *Rev. Stats. Me. (1883)*, ch. 63, § 32.

<sup>6</sup> *Forward v. Forward*, 6 Allen, 494, 497; *Teague v. Corbitt*, 57 Ala. 529; *Rev. Stat. Me. (1883)*, ch. 63, § 32.

<sup>7</sup> *Supra*, p. 26.

<sup>8</sup> *Infra*, p. 69.

<sup>9</sup> As to apportionment of charges between income and principal, see *infra*, pp. 104 *et seq.*

Ordinarily, the expense of accounting, not including court expenses, and clerk hire and office rent, are included in the ordinary allowance made as compensation,<sup>1</sup> and so are not charged to the trust, but where it is necessary to keep a clerk exclusively for a particular trust it would be the ground for an extra charge.<sup>2</sup>

He has a lien on the estate for his expenses, and may reimburse himself out of income or hold possession of the corpus of the estate until he is paid, but not if he has exceeded his powers, has been guilty of a breach of trust, or is in default.<sup>3</sup>

Before incurring expense he may require security if there is doubt about his being reimbursed, and he has a right to his costs prior to all charges.<sup>4</sup>

**Compensation.**—In England and in Illinois<sup>5</sup> and Delaware<sup>6</sup> the trustee cannot charge for services; but in all the other States he is entitled to reasonable compensation. The amount of the compensation is fixed by statute or rule of court, and is usually by way of commission on the gross income collected, and ranges from five to ten per cent. The court usually allows the highest amount paid agents, factors, and the like, for performing similar services.<sup>7</sup> The trustee may agree as to amount of commission with the beneficiary, if the beneficiary is competent to act, and no undue advantage is taken; and the court should take the agreement into consideration in fixing the amount of compensation.<sup>8</sup> Although the amount to be allowed rests, in the absence of statute, in the sound dis-

<sup>1</sup> *Little v. Little*, 161 Mass. 188.

<sup>2</sup> *Meeker v. Crawford*, 5 Redf. (N. Y.) 450.

<sup>3</sup> *Perrine v. Newell*, 49 N. J. Eq. 58.

<sup>4</sup> *Woodard v. Wright*, 82 Cal. 202; *Bradbury v. Birchmore*, 117 Mass. 569; *Dodds v. Tuke*, 25 Ch. Div. 617.

<sup>5</sup> *Buckingham v. Morrison*, 136 Ill. 437.

<sup>6</sup> *State v. Platt*, 4 Harring. 154.

<sup>7</sup> *Barrell v. Joy*, 16 Mass. 221.

<sup>8</sup> *Bowker v. Pierce*, 130 Mass. 262.

cretion of the court, the judgment is not conclusive on persons not properly parties to the case.<sup>1</sup>

In many cases a commission on income will not amount to reasonable compensation,<sup>2</sup> and in such cases an extra charge will be allowed;<sup>3</sup> and in cases where valuable service has been rendered to the principal fund over and above what is covered by the ordinary commission, a charge on principal will be allowed.<sup>4</sup> The ordinary changing of investments is not such a service,<sup>5</sup> and even where it is a case of extraordinary trouble entitling the trustee to an extra charge, the court will not allow compensation by way of commission, in these cases, as it is against its policy to encourage frequent changes and excessive expenditure;<sup>6</sup> but the sale and conversion of real estate, or the difficult settlement of a large claim, are usually considered extra services. The court disallowed a commission of five per cent for warranting a title.<sup>7</sup> In some jurisdictions the trustee will be allowed compensation for professional services, but in other jurisdictions he will not.<sup>8</sup>

A cumulative commission is never allowed, as for instance a commission in two capacities, such as guardian and trustee, from the management of the same fund,<sup>9</sup> unless there was a complete separation of duties,<sup>10</sup> or for collecting and disbursing the funds, but the commissions, however and on whatever charged, must not amount in all

<sup>1</sup> *Infra*, p. 79; *Jenkins v. Whyte*, 62 Md. 427.

<sup>2</sup> *Dixon v. Homer*, 2 Met. 420.

<sup>3</sup> *Turnbull v. Pomeroy*, 140 Mass. 117.

<sup>4</sup> *Ellis v. Ellis*, 12 Pick. 178; *Pitney v. Everson*, 15 Stew. (N. J.) 361, 367; *Biddle's Appeal*, 83 Pa. St. 340.

<sup>5</sup> *Jenkins v. Whyte*, 62 Md. 427.

<sup>6</sup> *Blake v. Pegram*, 101 Mass. 592; *May v. May*, 109 Mass. 252.

<sup>7</sup> *Urann v. Coates*, 117 Mass. 41.

<sup>8</sup> *Supra*, p. 28.

<sup>9</sup> Brightly's Purdon's Dig. Pa. (1894), p. 616, § 239; *Meeker v. Crawford*, 5 Redf. (N. Y.) 452.

<sup>10</sup> *Johnson v. Lawrence*, 95 N. Y. 154; *Blake v. Pegram*, 101 Mass. 592.

to more than reasonable compensation for all the services rendered.<sup>1</sup>

The commission should be deducted from the moneys paid from time to time to the beneficiaries, and not in a lump on the termination of the trust.<sup>2</sup>

It is usual to charge a commission of from two and one half to one per cent for the responsibility and services of distributing an estate;<sup>3</sup> but in spite of custom it would seem that the charge should in all cases be only reasonable compensation, and therefore not necessarily arrived at by percentage. No commission is allowable on assuming the trust.<sup>4</sup>

If the trustee has been unfaithful or mismanaged his trust, compensation may be withheld;<sup>5</sup> but even in such cases it may be allowed to the extent that the estate has benefited by his services.<sup>6</sup>

But under a statute allowing specified commissions, it has been held that the court has no power to withhold a commission for unfaithfulness.<sup>7</sup>

Where the matter of commission is regulated by statute, the rate prescribed by the trust instrument will govern, as the statutes, expressly in many cases, and impliedly in almost all, provide that the provisions of the instrument shall govern; and this, although no exact sum is specified. As, for instance, if the instrument provides for "reasonable compensation," the amount will not be confined to the statutory rate.<sup>8</sup>

<sup>1</sup> *Blake v. Pegram*, 101 Mass. 592.

<sup>2</sup> *Parker v. Ames*, 121 Mass. 220.

<sup>3</sup> *More v. Calkins*, 95 Cal. 435, 441; *Ga. Code* (1895), § 2552, and §§ 3484-3489; *Crocker's Notes on Pub. Stat. Mass.* 384; *Gen. Stat. N. J.* (1895), p. 2385, § 125; *Manual of Wills*, *Tucker*, pp. 120, 121. *Biddle's Appeal*, 83 Pa. St. 340.

<sup>4</sup> *Dixon v. Homer*, 2 Met. 420.

<sup>5</sup> *Brooks v. Jackson*, 125 Mass. 307.

<sup>6</sup> *Jennison v. Hapgood*, 10 Pick. 77.

<sup>7</sup> *In re Fitzgerald*, 57 Wis. 508.

<sup>8</sup> E. g. *Compiled Laws Dak.* (1887), § 3950, and *Statutes passim*; *Parker v. Ames*, 121 Mass. 220.

The rule in each jurisdiction, so far as it is determined by a reported decision or statute, is given below. Where no authority exists, in the absence of actual knowledge of a definite practice recognized and followed in the lower courts, it is usually safe to follow the rules laid down for executors and administrators, *mutatis mutandis*.<sup>1</sup>

**Alabama.** — Reasonable compensation; *Griffin v. Pringle*, 56 Ala. 486; 5 per cent allowed in *Pinckard's Distributees v. Pinckard's Adm'r*, 24 Ala. 250.

**Arizona.** — No authority; as to executors and administrators, Revised Statutes (1887), § 1212.

**Arkansas.** — Rate provided in settlement, and enough to make reasonable compensation; *Briscoe v. State*, 23 Ark. 592; as to executors and administrators, Digest of Statutes (1894), § 134.

**California.** — See Civil Code (1886), §§ 2273, 2274, and Civil Code of Procedure, § 1618. On the amount of estate accounted for, 7 per cent up to \$1,000; 5 per cent from \$1,000 to \$10,000; 4 per cent, \$10,000 to \$20,000; 3 per cent, \$20,000 to \$50,000; 2 per cent, \$50,000 to \$100,000. All over \$100,000, 1 per cent, and such further allowance for extra services as court may allow, not exceeding one half amount allowed by statute.

**Trustee under a will**, see Supplement Civil Code (1889), p. 437, § 1700, such compensation as court deems reasonable. And may establish a yearly allowance.

**Colorado.** — No authority. As to executors, Annotated Statutes (1891), § 4805.

**Connecticut.** — Reasonable compensation. *Clark v. Platt*, 30 Conn. 282; *Babcock v. Hubbard*, 56 Conn. 284.

**Dakota.** — Compiled Laws (1887), §§ 3949, 3950, 5888; 5 per cent on collections up to \$1,000; 4 per cent between \$1,000 and \$5,000, and 2½ per cent above \$5,000. Judge of Probate may make allowance for extraordinary services.

<sup>1</sup> *Abell v. Brady*, 28 Atl. Rep. 817; for other authorities on the subject in general, see *Perry*, § 918, n.

Delaware.—Reasonable compensation in discretion of court. *Laws of Delaware* (1893), p. 712.

Florida.—Reasonable compensation. *Muscogee Co. v. Hyer*, 18 Fla. 698.

Georgia.—Code (1895), § 3168. Same commissions as guardian; § 3484,  $2\frac{1}{2}$  per cent on both income and payments; § 3487, 10 per cent on proceeds of land worked; § 3489, extra in discretion of court; § 2552, on paying over, the same as administrator.

Idaho.—No authority. *Executors and Administrators, Statutes* (1887), § 5586.

Illinois.—In absence of stipulation or contract or provision of settlement, no compensation. *Buckingham v. Morrison*, 136 Ill. 437 (1891).

Indiana.—Reasonable compensation. *Premier Steel Co. v. Yandes*, 139 Ind. 307.

Iowa.—Reasonable Commissions. *In re Gloyd's Est.*, 61 N. W. Rep. 975.

Kansas.—No authority.

Kentucky.—Statutes (1894), § 3883, not to exceed 5 per cent on amounts received and distributed, and extra in discretion of court. *Fleming v. Wilson*, 6 Bush, 610, allowed  $1\frac{1}{2}$  per cent yearly on amount of principal; *Ten Broeck v. Fidelity Co.*, 10 S. W. Rep. 798, allowed 5 per cent on income, and  $1\frac{1}{2}$  per cent on investments.

Maine.—Revised Statutes (1883), ch. 63, § 32; 5 per cent and expenses.

Maryland.—5 per cent on income. *Abell v. Brady*, 28 Atl. Rep. 817.

Massachusetts.—Public Statutes (1882), ch. 144, § 7. Discretion of court; general rule, 5 per cent on income. *Barrell v. Joy*, 16 Mass. 221; *May v. May*, 109 Mass. 252; and extras earned.

Michigan.—Annotated Statutes (1882), § 6805. Trustees appointed by Probate Court, same compensation as administrators, § 5959. Administrator on all personal estate and proceeds of real estate sold. First \$1,000,

5 per cent; \$1,000 to \$5,000,  $2\frac{1}{2}$  per cent; all above, 1 per cent.

Minnesota.—No authority; but executors, administrators, and guardians are allowed, and presumably trustees, such reasonable compensation as court decrees just. Statutes Minn. (1894), § 4724.

Mississippi.—Reasonable Compensation. *Shirley v. Shattuck*, 28 Miss. 13.

Missouri.—Reasonable compensation. *Kemp v. Foster*, 22 Mo. App. 643.

Montana.—Civil Code (1895), § 3031, reasonable compensation. Code Civil Procedure, § 2776. For first \$1,000, 7 per cent; all between \$1,000 and \$10,000, 5 per cent; between \$10,000 and \$20,000, 4 per cent; all above \$20,000, 2 per cent; extra not to exceed amount allowed by statute.

Nebraska.—No authority. For executors, see Compiled Statutes Neb. (1895), § 2798.

Nevada.—No authority. For executors, see General Statutes (1885), § 2890.

New Hampshire.—*Gordon v. West*, 8 N. H. 444, trustee allowed 1 per cent on principal, rate of income being 6 per cent. Practice is 5 per cent on income; *Tuttle v. Robinson*, 33 N. H. 104, 118.

New Jersey.—General Statutes (1895), p. 2380, §§ 109, 110. Actual value, p. 2402, § 204. Reasonable compensation not exceeding 5 per cent on income.

New Mexico.—No authority. For executors, see Compiled Laws (1884), §§ 1404, 1445.

New York.—Code of Procedure (1895), §§ 2730, 2802. Allowed 5 per cent up to \$1,000; \$1,000 to \$10,000,  $2\frac{1}{2}$  per cent, for all above \$11,000, 1 per cent.

North Carolina.—Reasonable commission not exceeding 5 per cent; *Sherrill v. Shuford*, 6 Ired. Eq. 228.

North Dakota.—Revised Code (1895), § 4293, same as executors. § 6492 for first \$1,000, 5 per cent; \$1,000 to \$5,000, 4 per cent. All above,  $2\frac{1}{2}$  per cent.

Ohio. — Revised Statutes (1890), § 6333; reasonable compensation.

Oklahoma. — No authority. Statutes (1893), § 1410, as to executors.

Oregon. — No authority: Executors, Annotated Laws (1892), § 1180.

Pennsylvania. — Brightly's Purdon's Digest (1894), p. 2031, § 29; reasonable compensation; 5 per cent reasonable, *Pusey v. Clemson*, 9 Serg. & R. 204; Davis's Appeal, 100 Pa. St. 201.

Rhode Island. — No authority. Executors, General Laws (1896), ch. 219, § 8.

South Carolina. — Revised Statutes (1893), vol. 1, § 2099, same as executors; § 2069, executors allowed not exceeding 10 per cent. Court has no discretion. Cobb *v. Fant*, 36 S. C. 1.

Tennessee. — Code (1896), § 3525. Same as clerks and masters, not exceeding 5 per cent, § 6388. Clerks and masters' fees defined.

Texas. — No authority. Executors entitled to 5 per cent. Sayles, Revised Statutes (1895), § 2245.

Utah. — No authority. Executors, Compiled Laws (1888), §§ 4223-4225.

Vermont. — Reasonable compensation; *Hubbard v. Fisher*, 25 Vt. 539.

Virginia. — Code (1887), § 2695. Reasonable commission on receipts or otherwise. Usually 5 per cent, *Boyd v. Oglesby*, 23 Gratt. 674, 688.

Washington. — No authority. Executors, Code (1897), § 6314.

West Virginia. — Code (1891), ch. 87, § 17. Reasonable compensation. Usual 5 per cent. *Hoke v. Hoke*, 12 W. Va. 427. 10 per cent allowed for extraordinary services. *Shepherd v. Hammond*, 3 W. Va. 484.

Wisconsin. — No authority. Executors, Annotated Statutes (1889), §§ 3929, 3993.

Wyoming. — On personal estate distributed or real

estate sold for debts, up to \$1,000, 5 per cent; \$1,000 to \$5,000,  $2\frac{1}{2}$  per cent; for all over \$5,000, 1 per cent.

**The Trustee's Estate.** — The trustee takes an absolute estate in personal property;<sup>1</sup> but in real estate he will take a large enough estate to administer the trusts and no larger, entirely irrespective of the use or absence of words of limitation, or the technical phraseology of the trust instrument.<sup>2</sup>

Thus where the estate is granted without words of limitation, but a power of sale is given to the trustee, he will take an estate in fee instead of a mere life estate,<sup>3</sup> since without a fee he could not exercise his power; but no larger estate is given than is absolutely necessary, as, for instance, a life estate being sufficient to support an annuity, no larger estate will be implied.<sup>4</sup>

Although a fee be given to the trustee to support a less estate, as e. g. for the benefit of A until B comes of age, the estate will vest in B when he comes of age irrespective of the trustee's fee;<sup>5</sup> and there is often statutory provision that the estate of the trustee shall terminate on the completion of the purposes of the trust.<sup>6</sup>

In some Code States, viz. New York, Michigan, Wisconsin, Minnesota, and Dakota,<sup>7</sup> a trust is cut down to a mere power by statute and no title vests in the trustee.

<sup>1</sup> *Pace v. Pierce*, 49 Mo. 393. See *infra*, p. 86.

<sup>2</sup> *Cleveland v. Hallett*, 6 *Cush.* 403; *Greenwood v. Coleman*, 34 *Ala.* 150; *King v. Parker*, 9 *Cush.* 71.

<sup>3</sup> *Bagshaw v. Spencer*, 1 *Ves. Sen.* 142; *Welch v. Allen*, 21 *Wend.* 147.

<sup>4</sup> *Norton v. Norton*, 2 *Sand.* 296; *Code Ga.* (1895), § 3191; *Greenwood v. Coleman*, 34 *Ala.* 150.

<sup>5</sup> *Slevin v. Brown*, 32 *Mo.* 176; *Nash v. Coates*, 3 *B. & Adol.* 839; *Ga. Code* (1895), § 3191.

<sup>6</sup> *N. Y. Rev. Stat.* (1896), p. 1801, § 67; *Mich.*, *Wisc.*, *Minn.*, *Cal.*, *Dak.* *Civ. C.*

<sup>7</sup> *Rev. Stat. N. Y.* (1896), p. 1797, §§ 56, 57; *Annot. Stat. Mich.* (1882), § 5577; *Stat. Minn.* (1894), § 4285; *Annot. Stat. Wisc.* (1889), § 2084; *Comp. Laws Dak.* (1887), § 2803.

A passive trustee (that is, a trustee who merely holds a naked title to permit another to do something, as e. g. collect the rents) takes a modified title, about which we need not concern ourselves, as such trusts are not within the scope of this treatise.

**Possession.** — At law the trustee is entitled to the possession of the real estate,<sup>1</sup> and may eject the beneficiary,<sup>2</sup> nor can the beneficiary deny the trustee's title if he is his landlord.<sup>3</sup> He is equally entitled to the possession of the personal property,<sup>4</sup> but the beneficiary may have an equitable right to possession and will receive it under those circumstances,<sup>5</sup> though even then at law his possession will technically be the possession of the trustee. If he buys in a tax title, he cannot hold it against the trustee.<sup>6</sup>

**Trustee's Estate is Joint.** — Trustees, where there are more than one, take a joint estate which is not subject to partition.<sup>7</sup> If one trustee conveys his part without joining the others the conveyance is void, and the grantee does not take an undivided estate in the premises; no title passes.<sup>8</sup>

All the trustees are equally seised, and on the death of one the whole estate vests in the survivors.<sup>9</sup> A provision in the trust instrument for keeping up the number of the

<sup>1</sup> Clark *v.* Clark, 8 Paige, 153; Beach *v.* Beach, 14 Vt. 28.

<sup>2</sup> Presley *v.* Stribling, 24 Miss. 527.

<sup>3</sup> White *v.* Albertson, 3 Dev. 241.

<sup>4</sup> Pace *v.* Pierce, 49 Mo. 393; Western Rd. Co. *v.* Nolan, 48 N. Y. 513.

<sup>5</sup> *Infra*, p. 86.

<sup>6</sup> Frierson *v.* Branch, 30 Ark. 453.

<sup>7</sup> Atty. Gen. *v.* Gleg, 1 Atk. 356; Rev. Stat. Ind. (1894), § 3342; Rev. Stat. N. J. (1895), p. 3685, § 7.

<sup>8</sup> Chapin *v.* First Univ. Soc., 8 Gray, 580; Learned *v.* Welton, 40 Cal. 349; Sinclair *v.* Jackson, 8 Cow. 543; Morville *v.* Fowle, 144 Mass. 109; but see *contra*, Perry, § 334, and Boursot *v.* Savage, L. R. 2 Eq. 134.

<sup>9</sup> Co. Lit. 113; Ames, 346, n.

trustees will not prevent survivorship ;<sup>1</sup> and the statutes common in States providing that joint tenancies shall be construed as tenancies in common do not apply to trustees' estates.<sup>2</sup>

**Transmission of the Trustee's Estate.** — The trustee, being the legal owner, may make conveyance, and his transferee will stand at law entitled in his place.<sup>3</sup> But if the trustee had no power given him to convey, his transferee would take no larger title than the trustee conveyed, and would be bound by the trusts his grantor was bound by.

In the Code States the trustee having no estate, but a power merely, the conveyance would be simply void, and no estate would pass ; and there is a similar statutory provision in Indiana.<sup>4</sup>

**Alienation.** — If the trustee transfers his estate to a purchaser for value without notice of the trust, the purchaser will acquire the title discharged of the trust.<sup>5</sup> This is universal law, but is often enacted by statute.<sup>6</sup>

In some jurisdictions an attaching creditor is on the same footing as a purchaser for value ;<sup>7</sup> but if the property

<sup>1</sup> *Shook v. Shook*, 19 Barb. 653 ; *Dixon v. Homer*, 12 Cush. 41.

<sup>2</sup> *Underhill*, 382, n.

<sup>3</sup> *Canoy v. Troutman*, 7 Ired. 155.

<sup>4</sup> Rev. Stat. N. Y. (1896), p. 1799, § 65 ; Rev. Stat. Ind. (1894), § 3395 ; *Annot. Stat. Mich.* (1882), § 5583 ; *Annot. Stat. Wisc.* (1889), § 2091 ; *Gen. Stat. Kan.* (1889), § 7163 ; *N. Dak. Civ. Co.* (1895), § 3400 ; *Comp. Laws Dak.* (1887), § 2810 ; *Stat. Okla.* (1893), § 3773 ; *Stat. Minn.* (1894), § 4294.

<sup>5</sup> *Perry*, §§ 217 *et seq.* ; *Ames*, 286, n., has a full discussion of authorities. See also *infra*, p. 150.

<sup>6</sup> Rev. Stat. N. Y. (1896), p. 1799, §§ 64, 65 ; *Annot. Stat. Mich.* (1882), § 5572 ; *Annot. Stat. Wisc.* (1889), § 2080 ; *Civil Code Calif.* (1885), § 856 ; *N. Dak. Code* (1895), § 3387 ; *Stat. Okla.* (1893), § 3761 ; *Rev. Stat. Ind.* (1894), § 3392 ; *Gen. Stat. Kan.* (1889), § 7160 ; *Rev. Stat. Me.* (1883), ch. 73, § 12 ; *Ala. Code* (1896), § 1042 ; *Stat. Minn.* (1894), § 4283.

<sup>7</sup> *Mass. Pub. Stat.* (1882), ch. 141, § 3.

were transferred to secure a pre-existing debt, the transferee is not a purchaser for value.

If the purchaser has reason to believe that the property is held in trust, and fails to make proper inquiries, he is not a purchaser without notice; and the word "trustee" occurring on the face of the deed or certificate is sufficient to put him to his inquiry as to the trustee's power to transfer the property.<sup>1</sup>

If a purchaser has once acquired a good title, he may transfer a good title to any one but the person who defrauded the trust in the first place.

If the trustee have the power to transfer, his transferee will take a good title unless he knows that the transfer is a breach of trust; and the fact that the consideration is inadequate, or that it goes elsewhere than to the trust estate, will be sufficient notice of fraud to invalidate the title.<sup>2</sup>

No title to trust property will pass by a general assignment, as the trustee will not be supposed to intend to commit a breach of trust, and the deed will not be so construed as to make him do so.<sup>3</sup>

Where the trustee was one of the beneficiaries as well as trustee, it was said that the legal title would pass subject to the execution of the trusts, but the better opinion seems to be that it will not.<sup>4</sup>

No title will pass to the trustee's assignee in bankruptcy or insolvency;<sup>5</sup> nor can the trust property be taken for the trustee's private debt.<sup>6</sup>

If the creditor levies with notice of the trust, he will

<sup>1</sup> *Smith v. Burgess*, 133 Mass. 511; *Shaw v. Spencer*, 100 Mass. 382; *Third Nat. Bk. v. Lange*, 51 Md. 138. *Infra*, p. 150.

<sup>2</sup> *Wormeley v. Wormeley*, 1 Brock U. S. Cir. Ct. 330.

<sup>3</sup> *Thomson v. Peake*, 17 S. E. 45; *Rogers v. Chase*, 56 N. W. 537; *Abbott, Adm'r, Pet'r*, 55 Me. 580.

<sup>4</sup> *Doe d. Raikes v. Anderson*, 1 Starkie, 155; *Fausset v. Carpenter*, 2 Dow & Clark, 232.

<sup>5</sup> *Ames*, 393, n.

<sup>6</sup> *Supra*, p. 14.

take title subject to the trust;<sup>1</sup> but if he attaches in some States without any notice, he will stand in the position of a *bona fide* purchaser.<sup>2</sup>

The trust property may be taken on execution for debts incurred by the trustee in the execution of his trusts, in all jurisdictions to the extent to which the trustee is entitled to reimbursement, and in some without regard to his claim.<sup>3</sup> That is to say, in most jurisdictions the creditor takes only by subrogation through the trustee, and so is liable to all the set-offs which the trustee would be; as, for instance, if the trustee were in default, the creditor would only take the amount due, less the default.<sup>4</sup>

If, however, the trustee were given the powers of a general agent by statute or by the trust instrument,—as, for instance, where he is authorized to carry on the testator's business,—the liability would bind the trust estate to the extent of his authority; but even then it is held that the creditor must come against the trustee first.<sup>5</sup>

The court has held in Mississippi,<sup>6</sup> and it is provided by statute in Alabama,<sup>7</sup> that where the trustee is dead, insolvent, or out of the court's jurisdiction, the creditor may proceed against the trust property direct.

A mechanic's lien will attach to a trust estate only where the trustee has the power to contract for the labor for which recovery is sought,<sup>8</sup> and is not forbidden to encumber the estate by the trust instrument.<sup>9</sup>

<sup>1</sup> *Warren v. Ireland*, 29 Me. 62; *Houghton v. Davenport*, 74 Me. 590.

<sup>2</sup> *Supra*, p. 39.

<sup>3</sup> 15 Amer. Law Rev. 449; *Willy v. Collins*, 9 Ga. 223; *Manderson's Appeal*, 113 Pa. 631.

<sup>4</sup> *Strickland v. Symons*, 26 Ch. Div. 245; *Ames*, 423, n.; *Mason v. Pomeroy*, 151 Mass. 164; *Norton v. Phelps*, 54 Miss. 467; Ga. Code (1895), § 3185.

<sup>5</sup> *Fairland v. Percy*, L. R. 3 Prob. & Div. 217.

<sup>6</sup> *Norton v. Phelps*, 54 Miss. 467.

<sup>7</sup> Stat. Ala. (1896), § 4183.

<sup>8</sup> *Meyers v. Bennett*, 7 Daly (N. Y.), 471.

<sup>9</sup> *Franklin Savings. Bank v. Taylor*, 131 Ill. 376.

**Set-off.** — The trustee's private creditor might set off his debt in a suit at law, unless he knew at the time of its creation that the claim was a trust claim, in which case he will be enjoined from doing so in equity;<sup>1</sup> but if he were ignorant of the trust relationship, he may keep his set-off.<sup>2</sup>

The trustee's private creditor has no set-off in equity, bankruptcy, or insolvency.

A creditor of the beneficiary may set off his debt in equity or in an action at law by the trustee as an equitable bar in most jurisdictions.<sup>3</sup>

The trustee can only set off such debts as his beneficiary could set off, and in equity can set off the debts of the beneficiary.<sup>4</sup>

In equity the defendant may set off a debt due a third person as trustee for the defendant, and is generally entitled to such set-off as an equitable plea.<sup>5</sup>

**Title passes to Remainderman though his Estate be only Equitable.** — Where the trustee's estate is reduced to a mere power by statute,<sup>6</sup> or where a life estate only was necessary to execute the trusts, the trust estate will pass out of the trustee's hands, and vest in the remainderman, even though he have an equitable estate only, when the purposes of the trust are accomplished, and the intervention of the trustee will not be necessary to perfect the title.<sup>7</sup> But in the absence of statute, where the trustee took a fee, a conveyance by the trustee under such circumstances is necessary.<sup>8</sup>

<sup>1</sup> *Nat. Bk. v. Ins. Co.*, 104 U. S. 54.

<sup>2</sup> *School Dist. v. First Bank*, 102 Mass. 174.

<sup>3</sup> *Ames*, 270, n.; but see *Walker v. Brooks*, 125 Mass. 241.

<sup>4</sup> *Walker v. Brooks*, 125 Mass. 241; *Rev. Stat. Me.* (1883), ch. 82, § 63; *Pub. Stat. Mass.* (1882), ch. 168, §§ 11, 14; *Comp. Laws N. M.* (1884), § 2343; *Annot. Stat. Wisc.* (1889), § 4260.

<sup>5</sup> *Ames*, 270, n.

<sup>6</sup> *Stats. in N. Y., Mich., Wisc., &c.* *Supra*, p. 59.

<sup>7</sup> *Morgan v. Moore*, 3 Gray, 319.

<sup>8</sup> *Packard v. Marshall*, 138 Mass. 301.

On the resignation or disability of a trustee the title to the property may vest in the successor by conveyance of the outgoing trustee, or where there is a statute authorizing it the court may appoint a person to convey the estates, if he be beyond the jurisdiction. In the absence of such statute there is no way of divesting the outgoing trustee's title save by act of the legislature. Such acts are not unconstitutional, as the estate taken is not beneficial to the trustee.<sup>1</sup>

**Transmission. Forfeiture.**—Forfeiture of the trustee's property formerly carried with it a forfeiture of the trust property, although the Crown took subject to the trust;<sup>2</sup> but now there is no forfeiture in equity, and it is generally provided by statute that there shall be neither forfeiture nor escheat.

**Transmission on Death of Trustee.**—When one of several trustees dies, both the office and the title to the estate vest in his co-trustees by survivorship;<sup>3</sup> and when a sole trustee dies, it is generally provided by statute that the property and office shall vest in his successor in the trust, the title in the meanwhile remaining in the court or his heirs and personal representatives.<sup>4</sup>

Aside from statute, on the death of a sole trustee testate the property will pass to his general devisee in the absence of intent to confine the disposition of property to that in which he had a beneficial interest; but it will not pass to a general devisee where such an intention would be negatived by the circumstances; as, for instance, where the general devisee is a class of persons, or where the general devisee is a minor, or otherwise incapable or unfit. In such case the property will descend to the heir as undevised estate.

<sup>1</sup> *Supra*, p. 10.

<sup>2</sup> *King v. Mildmay*, 5 Barn. & Ad. 254.

<sup>3</sup> *Supra*, p. 38; *Shook v. Shook*, 19 Barb. 653.

<sup>4</sup> As to survival of office, see *survival of powers, infra*, p. 46.

If the sole trustee dies intestate, the property will descend to his representative;<sup>1</sup> but a widow has no dower,<sup>2</sup> and a husband no courtesy in a trust estate.<sup>3</sup> Or in some jurisdictions the title to real estate vests in the court<sup>4</sup> or eldest son by statute.<sup>5</sup> In some jurisdictions they may disclaim.<sup>6</sup>

When the title to an estate vests in the devisee, heir, or personal representative of a trustee, the devisee or personal representative only holds the title until such time as a successor may be appointed;<sup>7</sup> he does not succeed to the office, but to the title only,<sup>8</sup> and he has power to execute the trust only so far as is necessary to preserve it,<sup>9</sup> and to make it over to the new trustee, and make up an account. It is entirely inappropriate for him to attempt to carry on the trust, and in many jurisdictions it is expressly provided that he takes no estate.<sup>10</sup>

## II. POWERS.

**Of Powers in General.**—It does not come within the scope of this treatise to consider the powers which a trustee may have collateral to the trust estate, whether they are to be exercised over the trust property or elsewhere. As, for instance, a power to distribute the trust property among

<sup>1</sup> *Schenck v. Schenck*, 16 N. J. Eq. 174.

<sup>2</sup> Gen. Stat. N. J. (1895), p. 1280, § 25.

<sup>3</sup> *Flint*, § 125; *Perry*, §§ 321, 322.

<sup>4</sup> New York, Michigan, Wisconsin, Alabama, and Missouri; *Perry*, § 341.

<sup>5</sup> Pub. Gen. Laws Md. (1888), Art. 46, § 24.

<sup>6</sup> *Perry*, § 344; Mass. Pub. Stat. (1882), ch. 141, § 11.

<sup>7</sup> *Stevens v. Austen*, 7 Jur. N. S. 873; *Harlow v. Cowdrey*, 109 Mass. 183.

<sup>8</sup> *Mortimer v. Ireland*, 11 Jurist, 721. *Infra*, p. 46. But otherwise in some States, where personal representatives succeed to trust. West Va. Code (1891), ch. 132, § 6.

<sup>9</sup> *De Peyster v. Ferrers*, 11 Paige, 13.

<sup>10</sup> *Perry*, § 344; Code Ala. (1896), § 1044.

a certain class of persons, and apportion the shares among beneficiaries, such as children or charities.

We need only concern ourselves with those powers which the trustee must, or ordinarily does have, in connection with the management of the trust property.

**What Powers a Trustee has.** — At common law a trustee, being the absolute legal owner of the property, could exercise all the ordinary powers which an absolute owner might, but in a court of equity the rights of the beneficiary are paramount, and consequently a trustee will be restrained from exercising any power inconsistent with the beneficiary's rights ; hence a trustee may be said to have only those powers which he will not be restrained from using.

The trustee retains in equity as incidental to his office certain of the powers which are his at law as owner of the property ; he has also those additional powers which are conferred by the legislature or the court, and those powers which are conferred by the trust instrument.

The general powers incidental to the office are limited to and comprise all those that are necessary to the performance of his duties, such as power to demand, receive, and sue for the trust property or any income accruing on it ; to invest the funds and lease the real estate ; to take proper measures to keep the real estate repaired and insured, and to defend suits against him in respect to the property, or against him as trustee ; to disburse and distribute the property ; to protect the beneficiary, or maintain him if incapable of maintaining himself.

The powers to sell the trust property, and to change investments, and to convert real into personal estate and *vice versa*, are usually bestowed on the trustee by the legislature or court, but are special, and not general and incidental to the office, since the original conception of a trustee was some one to be trusted with the title to the property, and not a sort of business manager, as the office has more and more become.

The trust instrument itself may, and usually does, confer in express terms the powers which the court and legislature give; and it usually enlarges the general powers incidental to the office. In addition it frequently gives other powers of a discretionary character, such as a power of revocation of the trust, or a power of appointment as to distribution of income.

Implied powers are also often given by the trust instrument where it places a duty on the trustee, and neglects to give expressly the powers to perform it; and in every such case the trustee will take by implication all the powers necessary to execute his duty.<sup>1</sup> As, for instance, where a trustee is to borrow money on mortgage, he may give a mortgage containing a power of sale,<sup>2</sup> or where he is to keep the estate safely invested he will have implied power to sell hazardous investments left by the maker of the trust.

**Vesting of Powers.** — There are some cases in which the powers incidental to the office do not vest in the holder of the title. For instance, where the ownership vests in the heir or personal representative of a sole trustee, or in a stranger by a conveyance not properly authorized. In such cases the owner will be a trustee, but will not have the usual incidental powers to manage the estate; but only such powers as are necessary to preserve the property until it can be conveyed to a properly constituted trustee.<sup>3</sup>

The powers will vest in a trustee properly appointed, and, if there is more than one trustee, in all the trustees jointly.

The general powers will pass to the survivors or survivor, and will vest in the successors in the trust;<sup>4</sup> and this notwithstanding a provision for the keeping up of the

<sup>1</sup> *Infra*, p. 55.      <sup>2</sup> *Infra*, p. 61.      <sup>3</sup> *Supra*, p. 46.

<sup>4</sup> *Webster v. Vandeventer*, 6 Gray, 428; *Belmont v. O'Brien*, 12 N. Y. 394; *Nugent v. Cloon*, 117 Mass. 219. Statutes in many jurisdictions to same effect.

number of the trustees.<sup>1</sup> If, however, the powers are limited to "my trustees," they have been held not to pass to a single survivor, as the settlor evidently meant to trust the discretion of any two or more, but not of one trustee.<sup>2</sup>

Special powers conferred by the trust instrument upon the trustees in that capacity will pass to survivors or successors;<sup>3</sup> but if they are a personal confidence in the individuals who are nominated trustees they can only be exercised by the individuals named, and so will not survive or pass to successors. If, however, the limitation is a personal confidence to the trustees by name, and their heirs and assigns, the powers will pass to their successors, but not to their personal representatives.<sup>4</sup>

**Execution of Powers.** — The essential part of the execution of a power is the exercise of the discretion vested in the trustees. As this discretion vests in them jointly,<sup>5</sup> it can only be executed by the joint action of all the trustees; and an execution by part, even though a majority, is void, unless provided for by the instrument.<sup>6</sup> Hence the insanity or refusal to concur of one trustee can block all action,<sup>7</sup> and where the trustees disagree, the only remedy is to have a trustee removed and a new one appointed, which the court will not do, unless the conduct of the trustee has been factious and unreasonable, or promoted by corrupt or selfish motives.<sup>8</sup>

<sup>1</sup> *Hammond v. Granger*, 128 Mass. 272; *Bailey, Pet'r*, 15 R. I. 60.

<sup>2</sup> *Hibbard v. Lamb*, Amb. 309. *Contra*, *Franklin v. Osgood*, 14 Johns. 527.

<sup>3</sup> *Wemyss v. White*, 159 Mass. 484; *Schouler, Pet'r*, 134 Mass. 426.

<sup>4</sup> *Warnecke v. Lembca*, 71 Ill. 91.

<sup>5</sup> *Stott v. Lord*, 31 L. J. Ch. 391; *Ray v. Doughty*, 4 Blackf. 115.

<sup>6</sup> *Atty. Gen. v. Gleg*, 1 Atk. 356; *Morville v. Fowle*, 144 Mass. 109; *Vandevers Appeal*, 8 Watts & S. 405; *In the Matter of Wadsworth*, 2 Barb. Ch. 381.

<sup>7</sup> *Swale v. Swale*, 22 Beav. 584. *Supra*, p. 13.

<sup>8</sup> *Norcum v. D'Oench*, 17 Mo. 98. *Supra*, p. 21.

**Must be Joint.**—Trustees are joint tenants at law, hence one of them may give a debtor a good discharge if he pays his debt into his hand;<sup>1</sup> hence one trustee may collect dividends, rents, interest, or any other income accruing; and he may receive a simple debt or discharge a mortgage.<sup>2</sup> He cannot, however, assign a mortgage, as all the trustees must act in a sale or assignment of the trust property,<sup>3</sup> nor could he collect a judgment, as all the trustees must join in the suit.<sup>4</sup> Nor can one trustee bind all by a compromise.<sup>5</sup> Conversely, as he may collect it alone, so one trustee may pay out income, but in dealing with matters of principal all should join.<sup>6</sup>

In equity a joint receipt is required; hence if the debtor knows that the trustee is committing a breach of trust in receiving the money, or if he has been warned to pay to all the trustees only, he will not be protected by his single receipt.<sup>7</sup>

The liability of one trustee for allowing his co-trustee to receive or have the custody of the property is a different question and is treated below.<sup>8</sup>

**Delegation.**—The execution of a power in its essential part cannot be delegated either to a stranger or by one of the trustees to another.<sup>9</sup> Nor can the trustees divest themselves of their discretion by asking the advice of the

<sup>1</sup> Bowes *v.* Seeger, 8 Watts & S. 222.

<sup>2</sup> Ochiltree *v.* Wright, 1 Dev. & Bat. Eq. 336. *Infra*, p. 75.

<sup>3</sup> Mendes *v.* Guedalla, 2 Johns. & Hem. 259; Ridgley *v.* Johnson, 11 Barb. 527.

<sup>4</sup> *Infra*, p. 64.

<sup>5</sup> Stott *v.* Lord, 31 L. J. Ch. 391.

<sup>6</sup> *Infra*, p. 87.

<sup>7</sup> Lee *v.* Sankey, L. R. 15 Eq. 204; Magnus *v.* Queensland N. Bk., 37 Ch. Div. 466; Webb *v.* Ledsam, 1 K. & J. 385.

<sup>8</sup> *Infra*, pp. 87, 88, 122 *et seq.*

<sup>9</sup> Pearson *v.* Jamison, 1 McLean (Ken.), 197; Atty. Gen. *v.* Gleg, 1 Atk. 356; Berger *v.* Duff, 4 Johns. Ch. 368. See article in 12 Central L. J., 266-270.

court.<sup>1</sup> Thus a trustee cannot appoint an agent to sell the property<sup>2</sup> or to manage the real estate, or hand the funds to a solicitor to invest,<sup>3</sup> because by doing so he delegates the essential part of his power, namely, the exercise of his discretion in determining the selling or letting prices, or the need of repair, or the appropriateness of the security selected for investment.<sup>4</sup>

This does not prevent the trustee from intrusting the unessentials to an agent,<sup>5</sup> such as the delivery or execution of a deed or lease, or any other matter not requiring the exercise of discretion, unless the trust instrument requires his personal execution of these unessential matters. A convenient mode of action in such cases is to authorize the agent to contract subject to the assent of the trustee.<sup>6</sup>

Hence a trustee, having fixed the terms of sale, may give his attorney a special power to carry out the sale and convey the property; or in the case of a sale of stocks may sign a special power of attorney in blank to transfer the stock, and the transferee will not be put on his inquiry, as there is nothing to suggest that the trustee has delegated his discretion. But an attempt to reach the same results under a general power would be otherwise, as the evident implication is that the trustee has not passed on this particular case, and has delegated his discretion to his general attorney.<sup>7</sup>

**Partial or Defective Execution.** — A power need not be executed at one time, and if it be only partially executed, the execution may be completed at a later date.<sup>8</sup>

<sup>1</sup> *Trust Co. v. Sheldon*, 59 Vt. 374.

<sup>2</sup> *Berger v. Duff*, *ubi supra*.

<sup>3</sup> *Bostock v. Foyer*, L. R. 1 Eq. 26.

<sup>4</sup> *Woddrop v. Weed*, 154 Pa. St. 307.

<sup>5</sup> *Gillespie v. Smith*, 29 Ill. 473. *Infra*, pp. 58, 76.

<sup>6</sup> *Hawley v. James*, 5 Paige, 318, 487.

<sup>7</sup> *Lowell, Transfer of Stock*, § 76; *Hawley v. James*, *ubi supra*.

<sup>8</sup> *Sugden on Powers*, 3d Amer. ed., i. 79-85.

If the execution is defective, the court will compel the trustee to complete the execution in favor of a purchaser for value, or one having a meritorious claim, but it will not aid a volunteer.<sup>1</sup>

If in essential matters the power is substantially executed, the court will confirm the execution,<sup>2</sup> but if in non-essentials prescribed by the trust instrument there has been an error, the execution is absolutely void, and the court will not interfere.

Thus, if the power is to be executed by deed, an execution by parol will be ineffective, or if it is to be executed by deed witnessed by two men, a deed witnessed by a man and a woman will not do.<sup>3</sup>

If the validity of a special power be dependent on a condition, the condition must be proved and may be traversed, e. g. where a trustee was to sell land to support the beneficiary, where there proved to be plenty of personality, it was held that no power of sale arose.<sup>4</sup>

If the consent of a beneficiary is a condition precedent, the subsequent ratification will not be sufficient,<sup>5</sup> and if any party die whose consent is necessary, the power will be lost;<sup>6</sup> but in a case where the consent of a class of beneficiaries was required to protect their own interests, and they all died, it was held that, as there were no interests to be protected, the power had become unconditional, and the assent was no longer necessary to its execution.<sup>7</sup> And in some jurisdictions it is provided by statute that where the person has died whose consent was necessary to the execution of the power, the court might act in his place.<sup>8</sup>

<sup>1</sup> See page 58.

<sup>2</sup> Sugden on Powers, 3d Amer. ed., i. 391; Amer. & Eng. Encyc. Law, vol. 18, p. 927.

<sup>3</sup> Sugden on Powers, 3d Amer. ed., i. 299, 300.

<sup>4</sup> Minot *v.* Prescott, 14 Mass. 495.

<sup>5</sup> Bateman *v.* Davis, 3 Mad. 98.

<sup>6</sup> Alley *v.* Lawrence, 12 Gray, 373.

<sup>7</sup> Leeds Ex'r *v.* Wakefield, 10 Gray, 514.

<sup>8</sup> Mass. Pub. Stat. (1882), ch. 142, § 2.

So too a decree of the court acting by statute authority is invalid which does not conform to the statute authorizing it; since the court can only execute the power given it by statute, and is not itself the party creating the right, as it is where it acts on its own equitable jurisdiction.<sup>1</sup>

Only those interested can object to the execution of the power.

**Control of Court over Powers that it is the Trustee's Duty to Exercise.**—A trustee is bound to use a sound discretion in the execution of those powers which are incidental to his office, or which are conferred on him by the legislature or court; and he is answerable to the court for a failure to perform his duty. Hence the court will inquire into the manner in which he has executed such duties, and will hold him responsible if he has not used sound discretion; but if he has acted in good faith, without any selfish motive, the court will treat him with indulgence, and especially if he act under advice of counsel.<sup>2</sup>

It is said<sup>3</sup> that the court will ratify anything which it would order to be done, but this is not quite true, since a court will not ratify an unauthorized conversion, and it is not quite safe, since a court may not look at the matters just as the trustee does; hence, if a trustee has any doubt as to his duty, his best course is to ask the instruction of the court before he acts.<sup>4</sup>

**Control of Court over Discretionary Powers.**—The court will not interfere with the trustee's action where he has a discretionary power, since the maker of the trust meant to trust to the conscience of the trustee and not of the court;<sup>5</sup>

<sup>1</sup> *Infra*, p. 55.

<sup>2</sup> *Ellig v. Naglee*, 9 Cal. 683; *Crabb v. Young*, 92 N. Y. 56.

<sup>3</sup> *Perry*, § 476.

<sup>4</sup> *Infra*, p. 81.

<sup>5</sup> *Portsmouth v. Shackford*, 46 N. H. 423; *Haydel v. Hurck*, 72 Mo. 253.

and a trustee cannot divest himself of his discretion by consulting the court.<sup>1</sup>

They will not compel an execution, since it is a mere matter of choice with the trustee whether he will or will not act, and he is under no legal obligation to do either.<sup>2</sup>

If, however, the execution of the power becomes a matter of litigation, or is brought into court for execution, the holder can only exercise it with the court's approval.<sup>3</sup>

It will not inquire into his reasons for acting or not acting, since he and not the court is the tribunal;<sup>4</sup> but if the trustee gives his reasons, which he cannot be compelled to do, the court may review them, and if it finds them insufficient may reverse his action.<sup>5</sup>

If the discretion given the trustee is to act on his "good judgment," he cannot act upon his mere will or caprice, and the court will interfere where he refuses to act as a reasonable man, but is influenced by hostility to the person to be benefited or by selfish interest;<sup>6</sup> but the proper remedy in such cases is the removal of the hostile trustee, rather than a request to the court to change his determinations.<sup>7</sup>

It is provided by statute, however, in two jurisdictions, that discretionary power is presumed to be subject to the control of the court if not reasonably exercised.<sup>8</sup> In *Cromie v. Bull*, 81 Ky. 646, the court claimed the right to interfere, but did not exercise it. The court seems to extend its control to the extent, and only to the extent, of compelling an honest and *bona fide* exercise of the power.<sup>9</sup>

If the trustee exercises the power in such a manner as

<sup>1</sup> *Trust Co. v. Sheldon*, 59 Vt. 374; *Proctor v. Heyer*, 122 Mass. 525.

<sup>2</sup> *Costabadie v. Costabadie*, 6 Hare, 410; *Eldredge v. Heard*, 106 Mass. 579.

<sup>3</sup> *Bull v. Bull*, 8 Conn. 47; *Perry*, § 511.

<sup>4</sup> *Re Vanderbilt*, 20 Hun (N. Y.), 520.

<sup>5</sup> *Re Beloved Wilkes' Charity*, 3 McN. & G. 440, 448.

<sup>6</sup> *Garvey v. Garvey*, 150 Mass. 185.

<sup>7</sup> *Wilson v. Wilson*, 145 Mass. 490. *Supra*, p. 21.

<sup>8</sup> Comp. Laws Dak. (1887), 3948; Cal. Civ. Code (1885), § 2269.

<sup>9</sup> *Tabor v. Brooks*, 10 Ch. Div. 273; *Bacon v. Bacon*, 55 Vt. 243.

to be a fraud, the court can on that ground set it aside, having the usual jurisdiction to remedy a fraud, and not because it has jurisdiction to review the exercise of the power. And accordingly the person attacking the exercise of a power on the ground of fraud must prove his case affirmatively.<sup>1</sup>

**What amounts to Fraud in the Execution of a Power.**

— If the trustee exercise an unlimited power for his own gain, or to get an advantage for himself or his family, it will be a fraud, though not injurious to others.<sup>2</sup>

If he exercise a power in such a way as to defeat the purposes of the trust, as, for instance, if under a power to use the principal for the support of the beneficiary, he pays the whole amount over at one time for the purpose of revoking the trust, it will be a fraud.<sup>3</sup>

If he exercise a power for corrupt motives, or out of spite or revenge, the execution will be set aside.

Thus where a trustee appointed a double portion to his son to avoid a lawsuit, the execution was set aside.<sup>4</sup>

**Extinction of Powers.** — A power may become extinct by the death or disclaimer of one of those to whom it is given.<sup>5</sup>

A power cannot be exercised after the trust has expired,<sup>6</sup> or the purposes for which it was given have been fulfilled or become impossible; as, for instance, where a power was given to sell and convert into cash for A, and A had died.<sup>7</sup>

A power will not be exhausted by an exercise of part;

<sup>1</sup> *Re Brittlebank*, 30 W. R. 99.

<sup>2</sup> *Bostick v. Winton*, 1 *Sneed* (Tenn.), 524.

<sup>3</sup> *Lovett v. Farnham*, 169 Mass. 1. See *infra*, p. 69.

<sup>4</sup> *Holt v. Hogan*, 5 *Jones Eq. (N. C.)* 82.

<sup>5</sup> *Supra*, pp. 4, 46, 47.

<sup>6</sup> *Frazer v. Western*, 1 *Barb. Ch.* 220, 240.

<sup>7</sup> *Slocum v. Slocum*, 4 *Edw. Ch.* 613; *Lessee of Ward v. Barrows*, 2 *Ohio St.* 241. See *supra*, p. 16.

but where the court gives the power it may be otherwise. As, for instance, if part of a tract of land be sold under power of sale at one time, the balance may be sold at a later date; or if a power of appointment fail, it may be exercised again.<sup>1</sup>

### III. PARTICULAR POWERS.

**Sale. — Power of Sale.** — Although a power to sell is one of the most important powers a trustee may have, it is not a general power incidental to his office,<sup>2</sup> since the original theory of a trust did not contemplate a trustee's doing anything but holding and taking care of the property, the object of a trust then being to avoid feudal dues and forfeitures.<sup>3</sup> At the present day the usual object of a trust is to settle property in the hands of persons of good business ability to manage it for the benefit of others not possessed of such ability; or to settle property so that it may form a family fund to descend in the family as long as it can be tied up, and so that the property may not be dissipated by the improvidence or bad management of the persons to be benefited; who usually are, in part at least, persons unsuited for business and the care of large estates.

The policy of the modern trust is to give the trustees the fullest power to manage the estate to the best advantage, and hence a power of sale is a feature of all well drawn trust instruments.

In some jurisdictions there is a statutory provision that every will shall be construed to give the trustees power to change all trust investments.<sup>4</sup>

<sup>1</sup> *Supra*, p. 49; Sugden on Powers, 3d Amer. ed., p. 391.

<sup>2</sup> *Wheate v. Hall*, 17 Ves. Jr. 80; *Jones v. Atch.*, Top., & S. Fé Rd., 150 Mass. 304; *Code Ga.* (1895), § 3172; *Ky. Stat.* (1894), § 2356.

<sup>3</sup> *Lowell, Transfer of Stock*, § 62.

<sup>4</sup> *R. I. Gen. Laws* (1896), ch. 208, § 12; *Ky. Stat.* (1894), § 4707. In New York power of sale to pay collateral inheritance tax, *Rev. Stat.* (1896), p. 2857, § 5.

In many cases where the power is not expressly given, it will be implied from the fact that the trustee is given a duty which cannot be performed without a power of sale.<sup>1</sup> As, for instance, where the trust was to pay the settlor's debts, and then the income to B,<sup>2</sup> or where the trustees were to invest or reinvest in safe securities,<sup>3</sup> or where they were given the power to manage and invest,<sup>4</sup> or to invest as seems prudent.<sup>5</sup>

So, too, where the maker of the trust leaves illegal and improper investments, the trustees have an implied power to sell.<sup>6</sup>

**Sale under Statutes.** — In most jurisdictions power is given to the probate court by statute to give the trustees a license to sell,<sup>7</sup> and such statutes are held to be constitutional.<sup>8</sup>

In such cases the power given the court is subject to the same general rules as other powers, and the decree of the court must conform to the statute, and not exceed it.<sup>9</sup>

The statutes generally provide that the court, on the application of any one interested, may order a sale if the court thinks it necessary or expedient, and provide for notice to all persons in interest, and the appointment of guardians for all minors or persons unascertained or not in being.

<sup>1</sup> *Supra*, p. 46; *Jones v. Atch.*, Top., & S. Fé Rd., 150 Mass. 304.

<sup>2</sup> *Goodrich v. Proctor*, 1 Gray, 567.

<sup>3</sup> *Purdie v. Whitney*, 20 Pick. 25.

<sup>4</sup> *Harvard College v. Weld*, 159 Mass. 114.

<sup>5</sup> *Boston Safe Deposit Co. v. Mixter*, 146 Mass. 100.

<sup>6</sup> *Bohlen's Est.*, 75 Pa. St. 304.

<sup>7</sup> Mass. Pub. Stat. (1882), ch. 141, §§ 20, 22; Gen. Stat. Conn. (1888), §§ 494, 779; Laws of Del. (1893), p. 721; Code Ga. (1895), § 3172; Rev. Stat. Me. (1883), ch. 68, § 11; Pub. Stat. N. H. (1891), ch. 198, § 10; Stat. Vt. (1894), § 2617; Code Va. (1887), §§ 2616-2622; Annot. Stat. Wisc. (1889), §§ 2100 a, 4030; Rev. Stat. N. Y. (1896), p. 1799, § 65; Rev. Stat. Ind. (1894), §§ 3411, 3415.

<sup>8</sup> *Norris v. Clymer*, 2 Pa. St. 277.

<sup>9</sup> *Williamson v. Berry*, 8 How. 495, 531.

Such statutes do not give the court power to act in disregard of the testator's wishes,<sup>1</sup> and the fact that the income will be increased is not a sufficient reason to decree a sale.<sup>2</sup>

Where there is no general statute, the legislature may authorize a sale by special act, and often does so,<sup>3</sup> but even a sale under special act of the legislature in direct controversy of the settlement has been held void in Pennsylvania;<sup>4</sup> but elsewhere a special act for a sale, though contrary to the testator's intentions, has been held constitutional, as a change of investment, where adequate provision is made to protect the interests of all persons interested in the trust.<sup>5</sup>

Moreover, where it is impossible to use the property so as to carry out the testator's wishes, the court without an act of the legislature may order a sale on the *cy près* doctrine,<sup>6</sup> and if all parties in interest were parties to the suit, or represented by guardian, it is difficult to see what remedy they would possess at a later time,<sup>7</sup> and the trust passes from the property sold to the fund received in its place.<sup>8</sup>

There are statutes authorizing the court to order such sales, and sales of estates which are subject to contingent remainders or executory devises in some jurisdictions,<sup>9</sup> and providing for the appointment of guardians to represent persons who are unascertained or not in being.

If such persons are not represented, the sale is of no

<sup>1</sup> *Johnstone v. Baber*, 8 Beav. 233.

<sup>2</sup> *Davis, Pet'r*, 14 Allen, 24.

<sup>3</sup> *Stanley v. Colt*, 5 Wall. 119.

<sup>4</sup> *Ervine's Appeal*, 16 Pa. St. 256.

<sup>5</sup> *Clarke v. Hayes*, 9 Gray, 426; *Leggett v. Hunter*, 19 N. Y. 445; *Norris v. Clymer*, 2 Pa. St. 277.

<sup>6</sup> *Weeks v. Hobson*, 150 Mass. 377; *Ryan v. Porter*, 61 Tex. 106; *Atty. Gen. v. Briggs*, 164 Mass. 561.

<sup>7</sup> *Baker v. Lorillard*, 4 Comst. 257; *Ansley v. Pace*, 68 Ga. 403.

<sup>8</sup> *Cowman v. Colquhoun*, 60 Md. 127.

<sup>9</sup> Mass. Pub. Stat. (1882), ch. 120, § 19; Gen. Laws R. I. (1896), ch. 201, § 18.

effect, so far as they are concerned, should they afterwards become entitled.<sup>1</sup>

**Power of Court of Equity to decree a Sale.** — Where there is no statute giving any court power to decree a sale, a court of equity or any court having the power to regulate trusts may do so as one of its ordinary powers;<sup>2</sup> but where such a statute exists, the court would only act under and to the extent of the statute.

Where there is no statute, a court of equity will decree a sale only where the trust cannot otherwise be carried out, or where a sale is necessary to preserve the property;<sup>3</sup> that such a sale would be beneficial to all concerned is not sufficient ground of action, and a minor or person unascertained might object on becoming *sui juris* or vested with the estate.<sup>4</sup>

It is said that a court will not confirm an unauthorized sale even though it would have authorized it had it been consulted; but if there was no time to get leave of court, and the sale was necessary to preserve the property, the court would undoubtedly ratify it as the trustee had power to make it *ex necessitate*.

**Execution of the Power.** — The management of the sale requires discretion, and hence cannot be delegated. Where the trustee sells at private sale he must arrange the terms himself, or his agent may arrange them subject to his approval.

It is settled law in Missouri that, even though the sale is at auction, he should attend in person to decide any question arising on the spot, such as an adjournment or the

<sup>1</sup> *Baker v. Lorillard, ubi supra.* But see, *contra, Schley v. Brown*, 70 Ga. 64, where it was decided that persons unascertained and not in being are not necessary parties; but in this case a special power was given by the will to the court, and so the parties were immaterial.

<sup>2</sup> *Old South Soc. v. Crocker*, 119 Mass. 1.

<sup>3</sup> *Blacklow v. Laws*, 2 Hare, 40.

<sup>4</sup> *Baker v. Lorillard, ubi supra; Ansley v. Pace*, 68 Ga. 403.

acceptance of a bid,<sup>1</sup> but the usual practice is not so strict in most jurisdictions. Once having successfully attended to the details, he need not deliver the deed in person if he takes proper precautions to secure the purchase money.

The sale must be carried out in the manner prescribed in the trust instrument or decree from which the authority is derived; and any error or omission will vitiate the sale, and it may be disaffirmed.<sup>2</sup>

For instance, if the power be to sell for cash, a sale for credit cannot be made,<sup>3</sup> and if the power be to sell the whole estate, a partial interest such as a life interest, or a right to mine or cut timber could not be sold; but an authority to sell the whole estate will not prevent a sale by lots.<sup>4</sup>

If every essential requisite has been substantially fulfilled, the court will affirm the sale, even though there may have been some irregularity, such as an immaterial error in the description or advertisement,<sup>5</sup> or appearance of a party.<sup>6</sup> And in some jurisdictions there are statutory provisions providing that the title of a purchaser from a licensee of a competent court, who has given bond and due notice of the sale, shall not be set aside for irregularity in the proceedings.<sup>7</sup>

The trustee cannot purchase directly or indirectly either for himself or another at the sale, but if he himself becomes the purchaser the sale may be disaffirmed,<sup>8</sup> but in that case the purchase money must be refunded.<sup>9</sup>

If there is any fraud, such as inadequate notice, or if the selling price is wholly inadequate, so that it amounts to a fraud, the sale may be disaffirmed.<sup>10</sup>

<sup>1</sup> *Graham v. King*, 50 Mo. 22.

<sup>2</sup> *Knox v. Jenks*, 7 Mass. 488.

<sup>3</sup> *Waterman v. Spaulding*, 51 Ill. 425.

<sup>4</sup> *Ord v. Noel*, 5 Madd. 438.

<sup>5</sup> *Knox v. Jenks*, 7 Mass. 488.

<sup>6</sup> *Mercier v. West Kansas Land Co.*, 72 Mo. 473.

<sup>7</sup> Mass. Pub. Stat. (1882), ch. 142, § 18.

<sup>8</sup> See *supra*, p. 27.

<sup>9</sup> *Infra*, p. 142.

<sup>10</sup> *Oliver v. Court*, 8 Price, 127, 165.

The purchaser must ascertain at his peril that the power of sale arose,<sup>1</sup> and that it has been properly carried out, and if conditions are attached to the power he must see that they are properly performed. He will be liable if he have notice that the trustee has not exercised a personal discretion, but has delegated his duty to an agent, as, for instance, if he purchase from an agent under a general power of attorney;<sup>2</sup> but the determination of the court that a sale is proper will protect him. Where the sale is a breach of trust, the purchaser will be liable not only for the purchase price, but also for damages; and he cannot compel the trustee to carry out a contract that is a breach of trust, since equity would not compel the trustee to do wrong,<sup>3</sup> but he may get damages at law from the trustee individually for the breach of the contract.<sup>4</sup>

**Application of the Purchase Money.** — The general rule is, that where the settlor or court has intrusted the funds to the trustee, as for instance where the investment requires time and discretion,<sup>5</sup> or if he has a general power of sale,<sup>6</sup> the purchaser need not see to the application of the purchase money. If the sale is by order of court, he need not see to the application of the purchase money unless required to do so by the decree;<sup>7</sup> but if the funds are to be applied in a particular manner at a definite time, or if he knows that the trustee intends to misapply them, he will be liable if he neglects seeing that they are properly applied, as, for instance, where the trustee took a note and discounted it for his own benefit.<sup>8</sup>

<sup>1</sup> *Cassell v. Ross*, 33 Ill. 244; *Ord v. Noel*, 5 Madd. 438; *Third Nat. Bank v. Lange*, 51 Md. 138.

<sup>2</sup> *Supra*, p. 49.

<sup>3</sup> *White v. Cuddon*, 8 Cl. & Fin. 766.

<sup>4</sup> *Mortlock v. Boller*, 10 Ves. Jr. 292.

<sup>5</sup> *Wormley v. Wormley*, 8 Wheat. 421.

<sup>6</sup> *Lowell, Transfer of Stock*, § 77.

<sup>7</sup> *Coombs v. Jordan*, 3 Bland, 284; *Wilson v. Davisson*, 2 Rob. (Va.) 384, 412; *Perry*, § 798.

<sup>8</sup> *Third Nat. Bank v. Lange*, 51 Md. 138.

If the purchaser has paid in such manner that the funds might be properly invested,<sup>1</sup> he is not liable; but where he pays in an improper manner, so that he has notice of the contemplated breach of trust, he is liable for it.<sup>2</sup>

In England, and many of our States, he is exempted by statute from seeing to the application of the funds.<sup>3</sup>

**Pledge or Mortgage.**—The trustee has no power to pledge or mortgage the trust property incidental to his office, and the power has not been usually given him by the settlement or by the legislature; but of late years this power has been more frequently given to enable the trustee to improve the real estate.<sup>4</sup>

In the absence of statute, the court will not order a pledge or mortgage unless it is essential to carry out the purposes of the trust,<sup>5</sup> and in such cases the authority is really an implied one given by the instrument.<sup>6</sup>

If the trustee has power to "sell and dispose of" the property, he will have an implied power of mortgage,<sup>7</sup> and it is said that where a trustee has a power of sale, he will also have the power to pledge;<sup>8</sup> but the better opinion seems to be that a mere power of sale does not confer the power to pledge.<sup>9</sup>

<sup>1</sup> *Keane v. Robarts*, 4 Madd. 332, 356.

<sup>2</sup> *Pell v. De Winton*, 2 DeG. & J. 13; *Wormeley v. Wormeley*, 1 Brock. U. S. C. C. 330; S. C., 8 Wheat. 421. Whole subject treated in Underhill, 356, n.

<sup>3</sup> Code Ala. (1896), § 1039; Civ. Code Cal. (1885), § 2244; Rev. Stat. Ind. (1894), § 3399; Gen. Stat. Kan. (1889), § 7167; Ky. Stat. (1894), § 4846; Annot. Stat. Mich. (1882), § 5584; Rev. Stat. Mo. (1889), § 8691; Stat. Minn. (1894), § 4295; Code N. Dak. (1895), § 4277; Annot. Stat. Wisc. (1889), § 2092; Rev. Stat. N. Y. (1896), p. 1801, § 66.

<sup>4</sup> Mass. Pub. Stat. (1882), ch. 141, § 23; Rev. Stat. N. Y. (1896), p. 1799, § 65.

<sup>5</sup> *U. S. Trust Co. v. Roche*, 41 Hun (N. Y.), 549.

<sup>6</sup> *Miller v. Redwine*, 75 Ga. 130.

<sup>7</sup> *Waterman v. Baldwin*, 68 Iowa, 255.

<sup>8</sup> *Lowell, Transfer of Stock*, § 75.

<sup>9</sup> *Loring v. Brodie*, 134 Mass. 453.

The same remarks that apply to the execution of a power of sale apply to this power, except that, as this power is more unusual, the pledgee will be holden to more care than a purchaser.<sup>1</sup>

If the trustee have a power to mortgage, he may give a power of sale mortgage, although he has no power to sell;<sup>2</sup> since without such a power of sale the mortgage would be unmerchantable, and he will take by implication the power to give a merchantable mortgage, or one in the usual form.<sup>3</sup>

**Partition and Exchange.** — A partition or exchange can be made by express authority in the instrument, or they may be indirectly effected under an ordinary power of sale and reinvestment,<sup>4</sup> although a power of sale and a power to sell and exchange do not include a partition.<sup>5</sup>

If, however, the power of sale is restricted to sales for cash,<sup>6</sup> or the reinvestment is restricted, the partition or exchange could not be made in this way.<sup>7</sup>

**Leasing.** — The trustee has the power to lease the real estate as a general power incidental to his office, for such terms as are customary, since it is his duty to get the customary return from the property.<sup>8</sup>

These leases are binding on the estate for their whole term, even though the trust may terminate during the term of the lease, and the remainderman is bound by them;<sup>9</sup> but if the trust must terminate at a given time, as,

<sup>1</sup> Lowell, Transfer of Stock, § 75.

<sup>2</sup> Bridges *v.* Longman, 24 Beav. 27; Re Chawner's Will, 8 L. R. Eq. 569.

<sup>3</sup> Lewin, p. 472.

<sup>4</sup> McQueen *v.* Farquhar, 11 Ves. Jr. 467.

<sup>5</sup> Bradshaw *v.* Fane, 3 Drew. 534.

<sup>6</sup> Borel *v.* Rollins, 30 Cal. 408.

<sup>7</sup> Cleveland *v.* State Bank, 16 Ohio St. 236.

<sup>8</sup> Greason *v.* Keteltas, 17 N. Y. 491.

<sup>9</sup> Greason *v.* Keteltas, *ubi supra*; Kent's Commentaries, vol. iv. pp. 106-108.

for instance, on A's becoming of age, the trustee has no power to make a lease extending beyond that time, and any lease made by a trustee beyond his power will terminate with his estate, and will not bind the remainderman.

A trustee has no power to make a lease to begin at a future day,<sup>1</sup> nor to bind the estate by a covenant of renewal which will extend the whole term beyond the term for which he has power to lease, but may make reasonable covenants of renewal to the same extent as he might lease.<sup>2</sup>

It is often difficult to determine what is a customary term, and it is a question of fact in each case to be ascertained by careful inquiry, and must necessarily differ somewhat according to the location and the character of the property let.<sup>3</sup>

Twenty years has been considered a reasonable term for business property, and farming property is often let on even a longer term. There is one case where a lease of ninety-nine years was approved, but the circumstances were peculiar.<sup>4</sup>

A trustee may not make a building lease, because, although such leases may be in one sense of the word customary, they do not fall within the class of leases which are covered by the power incidental to the office.

In a building lease, part of the rent is the consideration of the tenant's improving the property, and these improvements, which do not benefit the lessor until the end of the term, accrue entirely to the remainderman, but are paid for by the life tenant by the use of the property at a less rent during his life.

All these rules may be modified by the provisions of the trust instrument, giving the trustee a special power to lease

<sup>1</sup> *Sinclair v. Jackson*, 8 Cow. 543, 581.

<sup>2</sup> *Newcomb v. Keteltas*, 19 Barb. 608; *Bergengren v. Aldrich*, 139 Mass. 259.

<sup>3</sup> *Newcomb v. Keteltas*, 19 Barb. 608.

<sup>4</sup> *Black v. Ligon*, Harp. Eq. 205.

in addition to the general power he has by virtue of his office, so that it may be lawful for the trustee to grant covenants of renewal, or make building leases or leases of unusual length, and if the trustee be given a power to lease for a specified number of years, any term less will be a good execution of the power,<sup>1</sup> and if he exceed that term the lease will be good to the extent of the authority.<sup>2</sup>

If the beneficiaries have acquiesced in an improper lease, and received the rents for a long time, they will not be heard to object; but this is merely a matter of remedy against them, and does not make the lease valid if invalid, as the beneficiary has no right to make or unmake leases.<sup>3</sup>

The trustee will be personally liable on the covenants in a lease unless there be an express provision to the contrary, and as a covenant of quiet enjoyment is implied in every lease, the matter of what risks he assumes should be carefully considered.<sup>4</sup>

**To Sue and Defend.** — The trustee has the duty of gathering in and protecting the trust property; hence he has power to sue for it or for any damage to it, and to defend suits in which it is involved, or in which he is involved as trustee,<sup>5</sup> and to employ counsel and incur all necessary expenses at the expense of the trust fund, whether successful or not in the litigation, unless he has been improvident or unwise. These expenses are allowed, not only in cases directly affecting the property, but also where the trustee has acted with reasonably good faith in attempting to protect the beneficiary himself; as, e. g., where he has attempted though unsuccessfully to have him adjudged insane.<sup>6</sup>

<sup>1</sup> *Isherwood v. Oldknow*, 3 M. & S. 382.

<sup>2</sup> *Powcey v. Bowen*, 1 Ch. Ca. 23.

<sup>3</sup> 4 Kent Com. 107; *Black v. Ligon*, Harp. Eq. 205.

<sup>4</sup> *Supra*, p. 24.

<sup>5</sup> *Supra*, p. 23.

<sup>6</sup> *Chester v. Rolfe*, 4 DeG., M. & G. 798; *supra*, p. 29; *Nelson v. Duncombe*, 9 Beav. 211.

If the trust fund is insufficient, he may require indemnity.

All the trustees must join or be joined, but the beneficiaries need not,<sup>1</sup> unless they are not adequately represented by the trustees; but they should be notified of a suit hostile to their title.<sup>2</sup>

The demand of one trustee is sufficient, and notice to one trustee is sufficient, but neither the admissions of one of several trustees,<sup>3</sup> nor the erroneous representations of one of several trustees, will bind his co-trustees or the estate.<sup>4</sup> A compromise of one of several trustees will not bind the estate.<sup>5</sup>

The admissions of the beneficiary will not defeat the trustee's title.<sup>6</sup>

The trustee may compromise or submit doubtful cases to arbitration,<sup>7</sup> and in some jurisdictions trustees are empowered by statute to compromise or submit to arbitration with the approval of the court.<sup>8</sup> A court of equity would have the same power where there is no statute.

The trustee should never compromise a suit unless it is decidedly for the benefit of the trust estate,<sup>9</sup> and unless his right is doubtful, and the result of litigation dubious, and in compromising a claim he should show a strong probability that it could not be recovered in full.<sup>10</sup>

<sup>1</sup> Generally, but expressly by statute in many jurisdictions. *Supra*, p. 23.

<sup>2</sup> Mackey's *Adm'r v. Coates*, 70 Pa. St. 350.

<sup>3</sup> Vandever's *Appeal*, 8 Watts & S. 405.

<sup>4</sup> *Low v. Bouverie*, 3 Ch. D. 1891, p. 82.

<sup>5</sup> *Scott v. Lord*, 31 L. J. Ch. 391; *Boston v. Robbins*, 126 Mass. 384.

<sup>6</sup> *Pope v. Devereux*, 5 Gray, 409.

<sup>7</sup> *Chadbourn v. Chadbourn*, 9 Allen, 173.

<sup>8</sup> Mass. Pub. Stat. (1882), ch. 142, § 12; Gen. Stat. Conn. (1888), § 595; Code Ga. (1895), §§ 3429, 3430; Gen. Laws R. I. (1896), ch. 208, §§ 13, 18; Rev. Stat. Me. (1883), ch. 68, § 10. Such statutes held constitutional. *Clarke v. Cordis*, 4 Allen, 466.

<sup>9</sup> *Ellig v. Naglee*, 9 Cal. 683.

<sup>10</sup> Ames, 494, n. *Infra*, p. 85, as to duties in such matters.

**To Contract.**—The trustee has no power to bind the estate by an express contract when one would not be implied by law, or to bind it upon one different from that which would be implied.<sup>1</sup>

The trustee binds himself personally, if at all, and not his successor in the trust,<sup>2</sup> whether he adds the word "trustee" to his signature or not;<sup>3</sup> but if he contracts within his powers the estate will be bound, whether he signs as trustee or as an individual only.<sup>4</sup>

In some States the trustee is given the power of a general agent,<sup>5</sup> and he may have such power by the terms of the trust instrument. In such case he would bind the estate by any contract which he made as trustee within his powers, and generally he may make any contract and bind the trust estate thereby, if he has power to do the act as trustee which he contracts to do.<sup>6</sup> Thus, where a trustee has power to carry on the testator's business, he will have power to bind the estate by his contracts in carrying on the business, not only the assets in the business, but even the general trust assets.<sup>7</sup> So a contract for repairs to the trust property will be binding on the estate since he has the power to make repairs, and a contract would be implied by law to pay for them.

But the right to hold the estate is merely the right to be subrogated to the trustee's claim to be indemnified out of the estate, and not a claim against the beneficiaries;<sup>8</sup> and this would probably hold true even in those States where the trustee has the powers of a general agent.

<sup>1</sup> *Durkin v. Langley*, 167 Mass. 577.

<sup>2</sup> *Luscomb v. Ballard*, 5 Gray, 403.

<sup>3</sup> *Perry*, § 437, b. *Infra*, p. 120.

<sup>4</sup> *Hapgood v. Houghton*, 10 Pick. 154.

<sup>5</sup> Comp. Laws Dak. (1887), § 3946; Rev. Code N. Dak. (1895), § 4289; Civ. Code Cal. (1885), § 2267.

<sup>6</sup> *Bushong v. Taylor*, 82 Mo. 660.

<sup>7</sup> *North Amer. Coal Co. v. Dyett*, 7 Paige, 9.

<sup>8</sup> *Everett v. Drew*, 129 Mass. 150.

**Maintenance and Support.** — The trustee has a general power incidental to his office to maintain and support his beneficiary. The power is coextensive with the duty, which is treated farther on.<sup>1</sup>

He very commonly also has a special power given him to apply the income of the property to the maintenance and support of the beneficiary, instead of paying it to him directly, the object being to enable the beneficiary to enjoy the property in spite of his creditors. The extent to which a valid power of this kind can be granted is treated later.<sup>2</sup>

This special power is usually discretionary to the fullest extent, the trustees being given the power to select the persons to whom the income is to be paid or to accumulate it in their discretion.

In such a case none of the possible recipients is entitled to anything, or has any real interest in the trust;<sup>3</sup> and so long as the trustee applies the income within the limits assigned, the court will not inquire into his motives or revise his acts.

If, however, he is prejudiced and cannot fairly exercise the power, he may be removed from his office of trustee, and this is the only remedy the beneficiary will have, and he is interested to that extent.<sup>4</sup>

In such trusts the court considers that the power should be exercised primarily for the support of the beneficiary,<sup>5</sup> but it will only interfere to remove a trustee who acts from caprice or mere will, or from improper and selfish motives, instead of discretion and judgment, and not to revise his acts.<sup>6</sup>

So, too, a power is often expressly given to apply such part of the principal as either the trustee, or in many

<sup>1</sup> *Infra*, p. 69.

<sup>2</sup> *Infra*, pp. 136 *et seq.*

<sup>3</sup> But see below.

<sup>4</sup> *Wilson v. Wilson*, 145 Mass. 490.

<sup>5</sup> *May v. May*, 109 Mass. 252.

<sup>6</sup> *Wilson v. Wilson*, 145 Mass. 490, 492.

cases as the beneficiary, may deem necessary for his comfort and support. The amount spent by whoever has the power of deciding what is needed "must be founded on a reasonable judgment, dealing with existing facts and reasonable anticipations of the future, and having a due regard for the purposes for which the power was given, and also for the rights of those whose interests are injuriously affected by its exercise";<sup>1</sup> and an exercise of such a power to draw all the funds out of the trust so as to effect a revocation is not a good exercise of the power, and void.<sup>2</sup>

The general power to support a beneficiary incapable of acting for himself is also in a large measure discretionary in its execution, and where exercised reasonably will not be reviewed by the court,<sup>3</sup> although in some jurisdictions the court claims the power to review the trustee's action,<sup>4</sup> and it will interfere where the trustee makes no payments at all.<sup>5</sup>

In the case of an infant, where the question arises as to spending any part of the principal, it is more prudent to take the direction of the court; as although it may authorize an expenditure of principal it is said that it will not ratify one;<sup>6</sup> but in those jurisdictions where the courts give the trustee a large discretion it would probably ratify any expense it would have authorized.<sup>7</sup>

The interest of the beneficiary, and not the accumulation of income for the benefit of the remainderman is the chief

<sup>1</sup> Barker, J., in *Lovett v. Farnham*, 169 Mass. 1, 6.

<sup>2</sup> Same case, and cases cited.

<sup>3</sup> *Bradlee v. Andrews*, 137 Mass. 50; *Hills v. Putnam*, 152 Mass. 123; *Greene v. Smith*, 17 R. I. 28. In this last case income was payable to a woman "for her use" as support, and the court held that the trustees must exercise a sound discretion in paying her such reasonable amounts as she could spend for that purpose.

<sup>4</sup> *Owens v. Walker*, 2 Strob. Eq. 289; *McKnight v. Walsh*, 23 N. J. Eq. 136.

<sup>5</sup> *Collins v. Serverson*, 2 Del. Ch. 324; *Aldrich v. Aldrich*, 12 R. I. 141.

<sup>6</sup> Ga. Code (1895), § 3185.

<sup>7</sup> *Williams v. Smith*, 10 R. I. 280, 283.

consideration,<sup>1</sup> and the trustee may provide such comforts and luxuries as are suitable to the condition in life of the beneficiary, and he is capable of enjoying ; as, for instance, making a home for his father or mother ;<sup>2</sup> keeping a horse ;<sup>3</sup> or providing expensive farm buildings or gifts to charity where the fortune is ample.<sup>4</sup>

If there are more beneficiaries than one entitled to support, the question whether they are entitled to equal support, or whether the trustee may apportion among them according to their needs, is to be determined by the intention of the maker of the trust as gathered from the instrument.

If the income is settled on a certain class of persons, or if an equal division of property in general was intended,<sup>5</sup> the amount expended must be equal.

If there is sufficient income, and one beneficiary needs a larger expenditure than the others, the trustee should take the largest amount actually expended and make up to those whose needs are not so great, by setting aside for those individuals a sufficient sum to bring the amount distributed to them up to the largest amount expended, and only the balance will be added to principal.

If, however, there is an express or implied intention to give the trustee the power to expend the income according to the needs of the several beneficiaries, he must ascertain those needs, expend accordingly, and accumulate the whole balance.<sup>6</sup>

**Miscellaneous.** — Besides the general powers, and common special powers above treated, trust instruments often contain other special powers too numerous to treat, especially as the mode of execution is generally carefully

<sup>1</sup> *May v. May*, 109 Mass. 252.

<sup>2</sup> *McKnight v. Walsh*, 23 N. J. Eq. 136.

<sup>3</sup> *Owens v. Walker*, 2 Strob. Eq. 289.

<sup>4</sup> *Langton v. Brackenbury*, 2 Colly. 446.

<sup>5</sup> *Williams v. Bradley*, 3 Allen, 270 ; *Jones v. Foote*, 137 Mass. 543 ; *Jackman v. Nelson*, 147 Mass. 300 ; *Harte v. Tribe*, 18 Beav. 215.

<sup>6</sup> *In re Coleman*, 39 Ch. D. 443.

provided for by the instrument, and also because they are governed by the general principles set forth above.

In England a power of revocation will be inserted in a voluntary settlement, and its absence is ground to set it aside; but such is not the law in America,<sup>1</sup> even where the special motive for creating the trust has disappeared.<sup>2</sup> A power of drawing the principal as needed for support will not authorize the drawing of all the principal, so as to effect a revocation of the trust.<sup>3</sup>

Powers to appoint a successor in office or to terminate the trust are not infrequent.

#### IV. DUTIES.

As we have already seen, the trustee is the absolute owner of the property, except in so far as his ownership is modified by his duties to the beneficiaries. These duties are not limited to the disposition of the property for his benefit, but an individual in assuming the character of a fiduciary or trustee for another immediately enters into a status with respect to that other which modifies their relationship as individuals, and places on the trustee a large number of duties to his beneficiary outside of and beyond the questions affecting the trust property.

His duties are to all the beneficiaries collectively, and he is bound to treat them all with equal justice.

First, we will treat of the duties which a trustee owes his beneficiary aside from the management of the property.

**Support.**—If the beneficiary is under a disability, it is the trustee's duty to see that he has proper care and support. If insane, it is his duty to have him declared so;<sup>4</sup> and if incapable for any reason to maintain and support

<sup>1</sup> *Taylor v. Buttrick*, 165 Mass. 547.

<sup>2</sup> *Keyes v. Carleton*, 141 Mass. 45.

<sup>3</sup> *Supra*, p. 67.

<sup>4</sup> *Nelson v. Duncombe*, 9 Beav. 211. *Supra*, p. 63.

him out of the funds which he would otherwise pay over to him, and accumulate any balance not needed. He cannot use funds the person would not be entitled to otherwise,<sup>1</sup> and an act of the legislature authorizing him to use the principal for the support of the life tenant is unconstitutional and void.<sup>2</sup>

The support is to be taken wholly from income except in a case where the property is absolutely vested in the beneficiary, in which case the court may make an allowance from principal; but the trustee should not do so without an order from the court.<sup>3</sup>

The matter of support is often complicated by the fact that others may have a duty to support the beneficiary, in which case the trustee is excused.

Thus, if the parent be alive and able to furnish support adequate to the minor's condition and fortune, the trustee should not contribute except under order of court;<sup>4</sup> if the parent cannot furnish sufficient support, the trustee should contribute sufficient to make reasonable support, taking all sources together, and if there are two funds to be drawn from they should be taxed ratably. Where, however, a fund is given to trustees to use in their discretion for the support of an insane person, they may take all his support from that fund irrespective of his other means;<sup>5</sup> and if the settlement be on the father as trustee to support his child, the settlement being in a certain sense for the benefit of the father, he may take the whole support from the trust funds irrespective of his own ability; and if the income is to be paid to a father or mother for the support of a child,

<sup>1</sup> *Lee v. Brown*, 4 Ves. Jr. 362, but now in England by statute may advance support to an infant contingently interested (*Re George*, 5 C. D. 837), where on estate becoming vested he would be entitled to the accumulations.

<sup>2</sup> *Ervine's Appeal*, 16 Pa. St. 256.

<sup>3</sup> *Supra*, p. 66. *In re Bostwick*, 4 Johns. Ch. 100.

<sup>4</sup> *McKnight v. Walsh*, 23 N. J. Eq. 136; *Perry*, § 612; *Flint*, § 190; *Lewin*, 653; *Underhill*, 350.

<sup>5</sup> *Hills v. Putnam*, 152 Mass. 123.

they are entitled to it so long as they support the child, but the court will see that they do so.<sup>1</sup>

It is the duty of a father, or a mother not under coverture, to support a minor child who is not taken from his or her care ; but a stepfather or a mother under coverture has no such duty.<sup>2</sup> A husband must support his wife.

It is the duty of the trustee to handle the funds himself, and not delegate the management of the funds for support to another, as e. g. he must not delegate the duty to the father.<sup>3</sup>

Under the existing statute law married women, except in their relations with their husbands, generally have the same status as other individuals,<sup>4</sup> and the trustee has no peculiar duty to them except in preventing the husband from reducing his wife's property to possession, in which case he should protect her rights.

**Contracts with Beneficiary.** — Where the beneficiary is of full legal capacity, the trustee may deal with and make binding contracts with him, even concerning the trust property. He cannot, as in dealing with a stranger, take advantage of his peculiar knowledge or position ; but if he gains any advantage in the transaction he will be under the burden of showing that the beneficiary was fully informed and thoroughly understood the matter, and that he, the trustee, has taken no advantage of his position or influence, or the transaction may be disaffirmed.<sup>5</sup> In other words, any transaction with a beneficiary in which the trustee

<sup>1</sup> *Chase v. Chase*, 2 Allen, 101 ; *Loring v. Loring*, 100 Mass. 340.

<sup>2</sup> *Alling v. Alling*, 27 Atl. Rep. 655 ; 52 N. J. Eq. 92.

<sup>3</sup> *Flint*, § 191 ; but *Perry*, § 620, says he may exercise sound discretion in paying to parent or guardian, and the same rule applies in payments to the beneficiary himself. See *Greene v. Smith*, 17 R. I. 28. *Supra*, p. 67, n. 3.

<sup>4</sup> *Taylor v. Buttrick*, 165 Mass. 547 ; *Jackson v. Von Zedlitz*, 136 Mass. 342.

<sup>5</sup> *Bowker v. Pierce*, 130 Mass. 262.

receives a benefit is presumed to be fraudulent, and the burden of proving it otherwise falls on him.<sup>1</sup>

The rule is the same whether the transaction concerns the trust proper or property outside of the trust.

If, for instance, a trustee sells to the trust fund a mortgage for more than the property is worth, and afterwards induces his beneficiary, relying on his representations, to allow him to buy in the property on foreclosure to prevent loss, the beneficiary may disaffirm the purchase and require the trustee to take the property and refund the money, if he acts as soon as he discovers the misrepresentations.<sup>2</sup>

The trustee may accept professional employment from the beneficiary, as that of attorney, broker, or counsel in other than trust matters, but if he takes compensation must show that he has not used his position to obtain the employment.<sup>3</sup>

It is said that a trustee may not receive a gift from a beneficiary,<sup>4</sup> but with the limitations specified as to other transactions, there seems to be no reason why a spontaneous present, especially if of small value, should not be given and accepted. Still such transactions, being subject to suspicion, are better wholly omitted.

**Good Faith.**—A trustee is bound to exercise the utmost good faith in all the concerns of the trust,<sup>5</sup> whether it be in dealing with the trust property itself, or with the beneficiary in matters concerning the trust. His fealty is to the trust, and all his acts must be governed by strict loyalty to it and the interests of the beneficiaries;<sup>6</sup> and

<sup>1</sup> Cal. Civ. Code (1885), § 2235; Dak. Comp. L. (1887), § 3928; Rev. Code N. Dak. (1895), § 4271.

<sup>2</sup> Nichols, Appellant, 157 Mass. 20.

<sup>3</sup> As to professional employment in trust matters, see *supra*, p. 28.

<sup>4</sup> Vaughton *v.* Noble, 30 Beav. 34.

<sup>5</sup> Cal. Civ. Code (1885), § 2228; Dak. Comp. L. (1887), § 3921.

<sup>6</sup> Perry, § 434.

any act which is not in the interest of the beneficiaries is a breach of trust.

Thus, even where the trustee honestly believes that the intention of the maker of the trust was otherwise, he must do nothing to prejudice the interest of his beneficiaries,<sup>1</sup> and in a suit for a conveyance he cannot set up a superior title.<sup>2</sup> He must not divulge a defect in the title, nor admit the adverse claim of another,<sup>3</sup> nor set up an adverse claim himself, or accept an adverse employment.<sup>4</sup> If he buys an adverse interest, he cannot set it up against the trust.<sup>5</sup> If he accidentally acquire an adverse interest which he intends to assert, he must resign the trust, unless the beneficiaries are informed and consent to his retention of the office.<sup>6</sup>

He must not come in competition with the trust estate,<sup>7</sup> and if he have demands both as an individual and trustee<sup>8</sup> against the same person, he must appropriate any sum he collects ratably between the two claims.<sup>9</sup>

**His Duty is All to the Trust.**—In the management of the fund, the trustee's duty is wholly to his trust; and he must do all that can be honestly done for the furtherance of its interests.

In the case of a demand he must press it by suit, unless it is evident that nothing can be gained.

In defending suits he should take all good ground that he has, and claim all exceptions.<sup>10</sup>

It is not his duty to appeal from an adverse decision,

<sup>1</sup> *Ellis v. Barker*, L. R. 7 Ch. 104; *Reid v. Mullins*, 48 Mo. 344.

<sup>2</sup> *Neyland v. Bendy*, 69 Tex. 711.

<sup>3</sup> *Thomas v. Bowman*, 30 Ill. 84.

<sup>4</sup> *Benjamin v. Gill*, 45 Ga. 110; Civ. Code Cal. (1885), § 2230.

<sup>5</sup> *M'Clanahan v. Henderson*, 2 A. K. Marsh. (Ky.) 388; 12 Am. Dec. 412.

<sup>6</sup> *Stone v. Godfrey*, 5 DeG., M. & G. 76.

<sup>7</sup> *Supra*, p. 28.

<sup>8</sup> Comp. Laws Dak. (1887), § 3925.

<sup>9</sup> *Scott v. Ray*, 18 Pick. 360.

<sup>10</sup> Amer. & Eng. Encyc. Law, vol. 27, pp. 155-157.

though he may do so in exercise of a sound discretion and under good advice; but if a decision in his favor is appealed from, he must maintain the suit,<sup>1</sup> and he should not compromise unless it is clearly for the benefit of the trust;<sup>2</sup> and if he have security, he must not release it, or part of it, without adequate consideration.<sup>3</sup>

**Trust cannot be Delegated.** — A trust is a personal confidence, that is to say, the beneficiary has a right to compel the individual who is trustee to perform the trusts himself. The trustee cannot turn over the whole trust to another, as is exemplified in the case of *Winthrop v. Attorney General*,<sup>4</sup> where the trustees of a fund for the support of a museum at Harvard College were refused leave to turn the fund over to the general fund of the College, the income to be accounted for to them.<sup>5</sup> Nor can the trustee delegate any part of his duties or powers; his duty is to exercise the powers and discretion himself,<sup>6</sup> and if he permits another to act in his place he does so at his peril.<sup>7</sup> Thus, where two trustees divided the trust and each managed a half, one was held liable for the half lost by the other.<sup>8</sup> But where the duties cannot be jointly exercised they may make a reasonable apportionment of them, and neither will be liable for the loss of funds or neglect of the other.<sup>9</sup>

In practice, it is usual for one trustee to assume the active management of the property,<sup>10</sup> but the law does not

<sup>1</sup> *Wood v. Burnham*, 6 Paige, 513.

<sup>2</sup> *Lewin*, p. 666.

<sup>3</sup> *Supra*, pp. 64, 65, as to conduct of suits.

<sup>4</sup> 128 Mass. 258.

<sup>5</sup> See also *Morville v. Fowle*, 144 Mass. 109.

<sup>6</sup> *Graham v. King*, 50 Mo. 22. *Supra*, p. 48.

<sup>7</sup> *Bostock v. Floyer*, L. R. 1 Eq. 26; *Jones's Appeal*, 8 Watts & S. 143.

<sup>8</sup> *Graham v. Austin*, 2 Gratt. 273.

<sup>9</sup> *State v. Guilford*, 18 Ohio, 500; *Kilbee v. Sneyd*, 2 Molloy, 186.

<sup>10</sup> *Jones's Appeal*, 8 Watts & S. 143. *Infra*, p. 122.

recognize a passive trustee ;<sup>1</sup> and he cannot delegate his powers,<sup>2</sup> hence, although the management must usually be confided to a certain extent to one trustee, still the property should not be placed in his exclusive possession and wholly beyond the reasonable control of all the trustees.<sup>3</sup> Each trustee must exercise at least a general supervision of the trust affairs, and “ fulfil the purposes of the trust with ordinary care and diligence ” ;<sup>4</sup> and a managing trustee stands on the same footing as any other agent, except in so far as one trustee can act for all, as in collecting rents or dividends.<sup>5</sup>

As noted above (p. 48), the trustees may prevent one of their number from collecting money by notifying the debtor to pay to all the trustees only ; and it is their duty to do so, if they know their co-trustee to be unreliable or likely to commit a breach of trust, but in absence of such knowledge they are justified in permitting one of their number to exercise his powers,<sup>6</sup> though it would still remain their duty to keep a general oversight of his doings, and not leave funds an unreasonable time in his hands.<sup>7</sup>

A distinction should be drawn between income and principal ; it being customary, and probably justifiable, to allow one trustee to collect and disburse the former, but not the latter ; and a trustee who allowed his co-trustee to collect a large amount of principal and let it lie uninvested in his hands, would be held liable for its loss.<sup>8</sup>

It is not a delegation of the trust to permit the managing trustee or an agent to perform any ministerial acts not requiring the exercise of discretion or judgment.<sup>9</sup> Thus the

<sup>1</sup> *Clark v. Clark*, 8 Paige, 153.

<sup>2</sup> *Supra*, p. 48.

<sup>3</sup> *Evans's Estate*, 2 Ashmead, 470. *Infra*, p. 123.

<sup>4</sup> Comp. Laws Dak. (1887), § 3941 ; Rev. Code N. D. (1895), § 4284 ; Code Ga. (1895), § 3170 ; Code Cal. (1885), §§ 2258, 2259.

<sup>5</sup> *Supra*, p. 48.

<sup>6</sup> *State v. Guilford*, 18 Ohio, 500.

<sup>7</sup> *Jones's Appeal*, 8 Watts & S. 143. *Infra*, p. 123.

<sup>8</sup> *Infra*, p. 123.

<sup>9</sup> *Perry*, § 409. *Supra*, p. 49.

managing trustee or an agent may be allowed to collect dividends and rents, and keep the books, and in general act for the trustees wherever there is a moral or legal necessity to employ an agent.<sup>1</sup> Such a necessity exists where the ordinarily prudent man of business would employ an agent in his own affairs, as, for example, employing a stock-broker to purchase stocks, and paying for them through him.<sup>2</sup> In such cases the trustee will not be liable for the default of the agent, but only for his care in selecting him ;<sup>3</sup> as again, for instance, a trustee who has employed a good conveyancer is not responsible for a flaw in the title which he overlooked.<sup>4</sup>

The employment of one of the trustees or an agent in such cases is not a delegation of the trust, but is the lawful act of the trustees by the hand of another. The difference between a delegation of the trust itself and the performance of a ministerial act by an attorney may be illustrated in the case of a sale of land.

The trustees could not delegate the matter of making the sale — that is, determining the price, terms, and whether it was better or not to sell or adjourn the sale — to one of the trustees,<sup>5</sup> but they might authorize one of the trustees to execute and deliver the deed for them, after they had determined the matter of the sale.

Again, the trustees could not give an agent or one of their number a general power of attorney to sell stocks ; but they might give a special power to transfer a particular stock. In the first instance the trustees are delegating their power to sell, which is a delegation of the trust ; in the latter case they are employing an agent to make a transfer, which is a purely ministerial act.<sup>6</sup>

<sup>1</sup> *Ex parte Belchier*, Amb. 219.

<sup>2</sup> *Speight v. Gaunt*, 22 Ch. D. 727.

<sup>3</sup> *Lewin*, 267, n. ; *Speight v. Gaunt*, 22 Ch. D. 727 ; *Ex parte Belchier*, Amb. 219.

<sup>4</sup> *Contra*, *Hopgood v. Parkin*, 11 Eq. 74. But see criticism on this case, *Underhill*, p. 300, § 8.

<sup>5</sup> *Graham v. King*, 50 Mo. 22. *Supra*, p. 57.

<sup>6</sup> *Supra*, p. 49.

**Accounts.**—If the trust is a testamentary one, the trustee will be required to file an inventory (by statute in practically all the States) soon after his appointment.

A trustee must keep accurate and separate accounts of the trust, which should be always open to the inspection of the beneficiary, even if kept in a book with other accounts.<sup>1</sup> If the account is inaccurate or obscure, the trustee is the loser, since everything will be taken against him.<sup>2</sup>

A court of equity may compel any trustee to account,<sup>3</sup> but as a general rule the jurisdiction is given to probate courts by statute.

A testamentary trustee is entitled to a periodical settlement of accounts with his beneficiaries, and to a formal discharge or settlement in court, but he is not entitled to a release under seal.<sup>4</sup>

In England, under the trustee's relief act, any trustee can account and pay money into court;<sup>5</sup> but in the absence of statute in America there seems to be no general jurisdiction in the court to compel the beneficiary to come in and settle his account.

All the trustees must join, and if one trustee allows another to render a fraudulent account, he is liable as a party to it.<sup>6</sup>

If the trustee holds by appointment of the court, he will be required to settle his account in court at stated intervals.<sup>7</sup> In such cases he need not render any other account, and the beneficiary must come into court to settle.

If the trustee does not hold under appointment of court,

<sup>1</sup> *Hopkinson v. Burghley*, L. R. 2 Ch. 447.

<sup>2</sup> *Landis v. Scott*, 32 Pa. St. 495; *Blauvelt v. Ackermann*, 23 N. J. Eq. 495.

<sup>3</sup> *Weaver v. Fisher*, 110 Ill. 146; *Mass. Pub. Stat. (1882)*, ch. 144, § 15, and *passim*.

<sup>4</sup> *King v. Mullins*, 1 *Drew*. 308. *Infra*, p. 119.

<sup>5</sup> *In re Wright's Trusts*, 3 *K. & J.* 419, 421.

<sup>6</sup> *Infra*, p. 124.

<sup>7</sup> Provided for by statute in most States.

he should settle his accounts yearly, or as often as the settlement requires.

If a trustee dies, the survivors will settle the account; and if a sole trustee dies, his executor or administrator may do so, although he does not succeed him in the trust.<sup>1</sup>

**Form of Account.**—The trustee's account is intended to show the condition of the estate, and does not involve the trustee's personal account with the remainderman or with other trusts.<sup>2</sup>

The account must show every transaction in detail, and include a list of property in the hands of the trustee. He must charge himself with each item received, and credit himself with every item lost, expended, or paid out, and ask to be allowed for the same. In accounting to a court he need not include in his account real estate, or the rents from real estate which lies in another jurisdiction,<sup>3</sup> but only the surplus brought into the jurisdiction of the court.<sup>4</sup>

The court in which the account is settled will prescribe the form in which the account will be made; but in every trust account there should be at least six schedules, viz.: income received, income paid, additions to principal, deductions from principal, principal on hand, and changes in investments consisting of debtor and creditor sides.

The income received should contain all the sums to which the life beneficiary is entitled, and the income paid all the charges against him.

The changes in investment should contain on the debtor side all the amounts received as principal for the remainderman, beginning with any balance of cash on hand; and on the credit side, all the amounts paid out as principal; and these two accounts should balance.

If there has been any gain to the principal, as by income

<sup>1</sup> *Munroe v. Holmes*, 13 Allen, 109.

<sup>2</sup> *Dodd v. Winship*, 133 Mass. 359.

<sup>3</sup> *Morrill v. Morrill*, 1 Allen, 132.

<sup>4</sup> *Clarke v. Blackington*, 110 Mass. 369. *Infra*, p. 157.

added, or sale of a security above its cost, or the recovery of an amount not shown in the inventory or previous accounts, it should appear in the schedule of additions to principal.

The schedule of deductions from principal will be made of similar items of loss and of any charges against the remainderman.

The schedule of principal on hand should enumerate each item of the trust property with its cost, either actual or appraised, carried out ; and the schedule of the current year will always equal that of the previous year, after adding the schedule of additions and deducting the schedule of deductions.

The form of account above given is that used in the courts of many States, but in some States the schedules of changes and additions and deductions are not put in, but all amounts received as principal are charged, and all amounts paid out of principal are credited, and the difference in amount between these two schedules will be the difference between the schedule of the current and preceding year.

**Effect of an Account.** — An account settled in the probate court is final,<sup>1</sup> as to all questions heard and determined between the parties ;<sup>2</sup> it cannot be reopened except to correct a mistake<sup>3</sup> or fraud, and its correctness cannot be questioned in a collateral proceeding in equity<sup>4</sup> or in a court of law.<sup>5</sup>

The account has no effect on the rights of a person not party to the proceedings, and a minor or a person unborn or a person unascertained must be represented by a guardian *ad litem* in order to be concluded.<sup>6</sup>

<sup>1</sup> *Stetson v. Bass*, 9 Pick. 26, 29 ; Mass. Pub. Stat. (1882), ch. 144, § 9.

<sup>2</sup> *Foster v. Foster*, 134 Mass. 120.

<sup>3</sup> *Dodd v. Winship*, 144 Mass. 461.

<sup>4</sup> *Sever v. Russell*, 4 Cush. 513.

<sup>5</sup> *Parcher v. Bussell*, 11 Cush. 107.

<sup>6</sup> *Morse v. Hill*, 136 Mass. 60, 67 ; *Jenkins v. Whyte*, 62 Md. 427. The acquiescence of a guardian *ad litem* does not preclude his ward. *Denholm v. McKay*, 148 Mass. 434.

In many States there are statutes providing for notice to such persons, and for the appointment of guardians.

A successor in a trust is not accountable for the faults of his predecessor, yet as the state of the funds may be affected by his act, the successor's duty may require him to investigate his predecessor's acts, reopen his accounts, and recover from him or his estate.<sup>1</sup>

An account simply allowed by the court without making all persons interested parties, may be reopened by the court in its discretion, even after so long a period as twelve years, to correct a mistake or fraud, but not on the ground that the former determination was erroneous;<sup>2</sup> but if the beneficiary had an estate in possession and has assented to the account,<sup>3</sup> or has neglected for a long period to enforce his rights, the court will not help him, although there is no statute of limitations to bar him.<sup>4</sup>

If the account is not settled in court, the settlement is final in so far as the account is assented to by persons interested and able to act for themselves, and may be reopened even by them to correct mistakes of fraud,<sup>5</sup> but in so far as fairly made is binding on all who take part in it even though it cover a breach of trust.<sup>6</sup>

**The Expense of Accounting.** — It is the trustee's duty to make up an account; therefore ordinary compensation covers the making up of the account, but any court charges will be borne by the trust estate, unless the trustee was at fault in not accounting, in which case he may be ordered by the court to pay the costs.<sup>7</sup>

<sup>1</sup> *Blake v. Pegram*, 109 Mass. 541; *Ex parte Geaves*, 8 DeG., M. & G. 291.

<sup>2</sup> *Cummings v. Cummings*, 128 Mass. 532.

<sup>3</sup> *Amory v. Lowell*, 104 Mass. 265.

<sup>4</sup> *Infra*, p. 149.

<sup>5</sup> *Bassett v. Granger*, 140 Mass. 183.

<sup>6</sup> *Infra*, p. 148; *Amory v. Lowell*, *ubi supra*.

<sup>7</sup> *Blake v. Pegram*, 109 Mass. 541, 558. In England, and where the trustee acts without compensation, the fund would bear the expense of

**Where the Trustee is in Doubt as to his Duty.** — When a trustee is in doubt as to his duty, he may notify the beneficiary of his intended action, and if he does not object he will not be heard to do so at a later date ;<sup>1</sup> and where the beneficiaries are of full capacity, although there is no obligation on him to do so, yet it is undoubtedly a prudent plan for the trustee to consult his beneficiaries before taking any important step,<sup>2</sup> but generally this mode of procedure will only protect the trustee against the life beneficiaries, and so is incomplete. If therefore there is a doubt as to what the trustee's duties are, he can and should apply to the court for instructions ;<sup>3</sup> but he cannot consult the court simply because he is ignorant and does not know his duty or what the law is. In such case, the court may tell him to take advice,<sup>4</sup> and if he involves the estate in unnecessary litigation he may have to pay costs. But where a question arises as to the proper construction of the settlement, or a determination between conflicting claims<sup>5</sup> is necessary, he may refer the matter to the court and will be protected by its determination. He may ask its instructions as to a compromise,<sup>6</sup> sale or investment of the trust property,<sup>7</sup> or on such a question as the apportionment of a fund between the life tenant and remainderman, as, for instance, a stock dividend or the apportionment of the expense of certain repairs.

Where, however, he is given a discretionary power in the matter, the court will not interfere since he is the

accounting, but the expense of furnishing an unnecessary account must be borne by the person requiring it. *Re Bosworth*, 58 L. J. Ch. 432.

<sup>1</sup> *Life Association of Scotland v. Siddal*, 3 DeG., F. & J. 58, 74.

<sup>2</sup> *Bradby v. Whitchurch*, W. N. 1868, p. 81.

<sup>3</sup> Generally, but by statute sometimes. *Rev. Stat. Ohio* (1890), § 6202; *Pub. Stat. N. H.* (1891), ch. 198, § 10.

<sup>4</sup> *Greene v. Mumford*, 4 R. I. 313; *Underhill*, 436, n.

<sup>5</sup> *Hills v. Putnam*, 152 Mass. 124.

<sup>6</sup> *Mass. Pub. Stat.* (1882), ch. 142, § 12; *Chadbourn v. Chadbourn*, 9 *Allen*, 173.

<sup>7</sup> *Wheeler v. Perry*, 18 N. H. 307.

forum and not it.<sup>1</sup> Nor could he use this method of determining a question at law, as, for instance, what is his liability to a creditor or for a tax;<sup>2</sup> or what his powers and duties will be under a contemplated reorganization of a corporation.<sup>3</sup>

No application will be considered until the question is a practical one and must be decided. Hence a question as to who will be entitled in remainder cannot be asked during the existence of the life estate.<sup>4</sup>

The proper way to raise the question is by a bill for instructions, and not by a fictitious account.<sup>5</sup> An account is meant to show the state of the estate, and is not for the trial of disputed claims.<sup>6</sup>

#### V. MANAGEMENT OF FUND.

**What may be Trust Property.** — Any sort of property, real or personal, in possession or reversion, or any interest, whether vested or contingent, which can be assigned, may be the subject of a trust,<sup>7</sup> even though it be real estate outside of the jurisdiction of the court,<sup>8</sup> or something not actually in existence,<sup>9</sup> or trade secret or patent right, but trusts only extend to property, and not to such things as the performance of an act, as the employment of a particular person as attorney or agent.<sup>10</sup>

**Taking Possession.** — On accepting a trust, it is the trustee's duty to inquire into the nature of the property

<sup>1</sup> *Trust Co. v. Sheldon*, 59 Vt. 374.

<sup>2</sup> *Greene v. Mumford*, 4 R. I. 313.

<sup>3</sup> *Treadwell v. Salisbury Mfg. Co.*, 7 Gray, 393.

<sup>4</sup> *Bullard v. Chandler*, 149 Mass. 532.

<sup>5</sup> *Lincoln v. Aldrich*, 141 Mass. 342.

<sup>6</sup> *Dodd v. Winship*, 133 Mass. 359; *New Eng. Trust Co. v. Eaton*, 140 Mass. 532.

<sup>7</sup> *Perry*, §§ 67, 68. <sup>8</sup> *Massie v. Watts*, 6 Cranch, 148, 160.

<sup>9</sup> *Mitchell v. Winslow*, 2 Story, 630.

<sup>10</sup> *Foster v. Elsley*, 19 Ch. Div. 518.

and trust documents.<sup>1</sup> If he succeeds a former trustee, he must ascertain that he receives all the property that belongs to the estate, which will involve the examination of his predecessor's accounts so far as they are open.<sup>2</sup>

He is not bound to take the securities tendered him if they are improper investments, but may insist on having them converted into cash, or, at any rate, he need only take the securities at their actual value and then should collect the balance from the outgoing trustee.<sup>3</sup> If he takes the securities at their inventory value, he will be responsible for them at that price.

The same rule applies where he takes the estate from an executor. He must take immediate steps to secure the trust property and properly invest it. He will have an equitable action against a transferee of the legal title made before he became trustee.<sup>4</sup>

*Real Estate.* — If the appointment is an original one, the will or settlement will vest the title of the real estate in the trustee, and he must see that the instrument is recorded in every jurisdiction where there is any land.<sup>5</sup>

If the trustee comes in the place of a former trustee, the estate may vest in him by the terms of the trust instrument or by statute, in which case he must see that he is duly appointed or his appointment recorded in each jurisdiction where the land lies,<sup>6</sup> or if there is no provision in the instrument, and he is not appointed by a decree of court vesting the property in him, then he must take a conveyance and record it in each jurisdiction.

Having acquired title he should at once take possession, actual or constructive. If the real estate is let he should

<sup>1</sup> *Hallows v. Lloyd*, 39 Ch. Div. 686, 691; *Underhill*, p. 219.

<sup>2</sup> *Supra*, p. 80. *Ex parte Geaves*, 8 DeG., M. & G. 291.

<sup>3</sup> *In Re Salmon*, 42 Ch. Div. 351; *Thayer v. Kinsey*, 162 Mass. 232.

<sup>4</sup> *Loring v. Salisbury Mills*, 125 Mass. 138.

<sup>5</sup> *Hext v. Porcher*, 1 Stroh. Eq. 170.

<sup>6</sup> *Cogbill v. Boyd*, 77 Va. 450.

take constructive possession by compelling the tenant to attorn, or acknowledge him as his landlord and agree to pay rent to him, or if there is no tenant he should take actual possession of the land.

If the beneficiary is in possession under the terms of the trust he need do nothing, as the beneficiary's possession is constructively the possession of the trustee.

*Personal Property.* — If the trustee is an original appointee under a deed, the personal property will probably be in the hands of the settlor, and it, or the evidences of it, should be delivered to the trustee when the settlement is made.

If the trustee joins in a deed acknowledging the receipt of the property, and does not as a matter of fact receive it, he will be liable for it as though he had received it, to any person acting on the faith of his receipt.<sup>1</sup>

If the trustee is appointed under a will,<sup>2</sup> he may not be entitled to the personal property at once, as until the executors have administered the estate they are entitled to hold it; and where the same persons are trustees and executors, until they terminate the executorship by filing an account crediting themselves as executors with the trust property, and qualify as trustees or do some other definite act showing a transfer, they will still remain liable as executors and will not hold as trustees.<sup>3</sup> “When a trust fund is to be created by an executor out of the assets of an estate, something more must be done by the executor in order to impress the trust on particular property than to hold the property with the intention that it shall constitute the trust fund. There must be some act of appropriation which transfers it to the trust fund and gives the beneficiaries right to have it held for them.”<sup>4</sup>

<sup>1</sup> *Low v. Bouverie*, 3 Ch. D. [1891] 82. See *infra*, p. 120.

<sup>2</sup> See *supra*, p. 9.

<sup>3</sup> *Crocker v. Dillon*, 133 Mass. 91. *Supra*, p. 12.

<sup>4</sup> *Knowlton*, J., in *Sheffield v. Parker*, 158 Mass. 330, 332.

In the case of an incoming trustee it is his duty to examine the executor's accounts and ascertain that he obtains all the estate that he is entitled to.<sup>1</sup>

Although the provisions of the trust instrument or decree of the court may have the force of a written transfer, yet in the case of personal property a delivery of the property itself or of the evidence of it is essential, and in every case it is desirable where the property is such as not to pass by delivery simply, to have a written transfer from the former owner. But where the property is vested in the new trustee by force of statute or provision of the trust instrument, he, and not the former owner, is the proper person to transfer. Where there is no decree of the court, or no provision of the trust instrument vesting title, an assignment by the holder of the title is indispensable.

Registered bonds, notes, and certificates of stock should stand in the names of all the trustees, and should specify the trust under which they are held on their face, so that there can be no question as to its identity. To describe the holders as "trustees" merely is not sufficient, as it is not apparent to what fund the stock belongs, and no well advised purchaser will take a transfer of such a stock without farther assurance.

The transfer should be made without delay: on a note by indorsement, and on a stock or registered bond by indorsement and transfer on the books of the company.

If there is a chose in action or equity, the obligor should be notified at once;<sup>2</sup> as for instance a bank account, for although notice is not necessary to complete the title in some jurisdictions,<sup>3</sup> a payment of the claim or other novation of the security to the previous holder before notice will discharge the debtor.<sup>4</sup>

All claims which are due should be called in, unless they are such as to constitute a proper trust investment; and if necessary the trustee should sue without delay, un-

<sup>1</sup> *Infra*, p. 121.

<sup>2</sup> Ames, 327, n.

<sup>3</sup> *Thayer v. Daniels*, 113 Mass. 129.

<sup>4</sup> *Infra*, p. 134.

less he can show that more is to be gained by forbearance,<sup>1</sup> not only for these, but for any of the trust property which he cannot obtain on demand, and he will have an equitable suit for property, of which the legal title has passed to a third person by a breach of his predecessor in the trust.<sup>2</sup>

**Care and Custody of the Trust Property.** — Assuming that the trustees have got titles, and the property properly into their hands, their next duty is to take proper care of it.

**Real Estate.** — The trustee should immediately insure the real estate for a reasonable amount, should fence it if necessary, and put it in a condition to be let, and thereafter he must keep the property insured,<sup>3</sup> fenced, and in repair, and pay the taxes on it.

If the property is unimproved he may improve it so as to secure a tenant, but, in the absence of special power from the trust instrument or court to do so, he must be careful not to convert the personal property of the estate from personal to real estate without authority in doing so, as by spending any cash that may be on hand or the proceeds of the sale of securities.

**Personal Property.** — Trust chattels are usually meant to be enjoyed in specie by the beneficiary, and may be turned over to him, and if he uses them up, lets, or de-

<sup>1</sup> Ames, 494, n. 1.

<sup>2</sup> Loring *v.* Salisbury Mills, 125 Mass. 138.

<sup>3</sup> Burr *v.* McEwen, Baldw. C. C. 154, and Eng. & Am. Encyc. of Law, vol. 27, p. 163, which states that the trustee must insure, although unsupported by the cases cited. But Davis, J., in Insurance Co. *v.* Chase, 5 Wall. 509, 514, and the cases in general and the English statute, Lewin, p. 314, and Perry, § 487, all say that a trustee *may* insure; but under modern conditions, where every prudent man does insure his own risks, it would seem that a trustee must insure, and he is usually required to do so by well drawn trust instruments.

stroyes them, the trustee will not be liable ; but the trustee should require him to sign an inventory when they are delivered.

Where the use of the chattels is not given to the beneficiary, they should be converted into money,<sup>2</sup> unless they were to be held unconverted, in which case the trustee must keep the actual possession, and as several persons cannot conveniently hold them they may be left in the hands of one trustee.

Money should be deposited in a good bank in the joint names of all the trustees ; and if it is deposited in the individual names, the trustees will be liable if it is lost, though without their fault, as by a failure of the bank or otherwise.<sup>3</sup>

All the trustees are responsible if they leave money for more than temporary purpose in the name of one.<sup>4</sup> And while it is customary and probably justifiable to permit one trustee to draw checks alone against an account which consists wholly of income, they should not permit large amounts of principal to lie in the bank subject to the draft of one of their number.<sup>5</sup>

But one trustee may be allowed to draw checks against income, since it is not unreasonable to allow one trustee to collect it.<sup>6</sup>

It was held in a case where there was a dispute, and consequently the funds could not be invested,<sup>7</sup> that the trustees were entitled each to hold half and pay interest

<sup>1</sup> *Dorr v. Wainwright*, 13 Pick. 328 ; *McDonald v. Irvine*, 8 C. D. 101, 112.

<sup>2</sup> As to when a conversion is proper, see *infra*, p. 89.

<sup>3</sup> *In re Arguello*, 97 Cal. 196 ; *Ames*, 484, n. ; *Corya v. Corya*, 119 Ind. 593 ; Civ. Code Cal. (1885), § 2236 ; Comp. Laws Dak. (1887), § 3929 ; Rev. Code N. Dak. (1895), § 4272.

<sup>4</sup> *Monell v. Monell*, 5 Johns. Ch. 283 ; 9 Amer. Dec. 298.

<sup>5</sup> *Lewis v. Nobbs*, L. R. 8 Ch. D. 591 ; *Clough v. Dixon*, 8 Sim. 594.

<sup>6</sup> *Kilbee v. Sneyd*, 2 Moll. 186. *Supra*, p. 48.

<sup>7</sup> *Ames v. Scudder*, 11 Mo. App. 168.

thereon, and one becoming insolvent the other was not held liable, but it is somewhat doubtful whether this rule can be safely followed ; it would seem more appropriate to deposit the money in a safe place in the joint names.

Non-negotiable stocks, registered bonds, notes, deeds, &c., may be left in the custody of one trustee,<sup>1</sup> or in case of necessity or propriety in the hands of an agent ;<sup>2</sup> as for instance deeds could be left with a solicitor, or stocks with a stockbroker who is negotiating a sale ; but if negotiable securities be left in the hands of an agent unnecessarily the trustees would undoubtedly be liable.<sup>3</sup>

Negotiable securities, and partially negotiable securities such as registered coupon bonds, should be deposited in a safe deposit vault, or where none is convenient at a banker's in a separate box, in the joint names of all the trustees. The question of how far the trustees are justified in allowing one of their number to have access to the box alone, cannot be considered as authoritatively determined. The general rule, that the trustee must use reasonable care, only postpones the question, as the question still remains whether allowing one trustee access alone is reasonable care. Mr. J. Kekewich in a late case<sup>4</sup> expresses his own opinion strongly that negotiable securities should not be got at without the consent of the whole body ; but V. C. Wood, in a leading earlier case,<sup>5</sup> said that it was too much to say that ordinary prudence requires a box with three keys, and this latter dictum seems to accord more nearly with the general usage in this country.

Where a bond could be registered, as most bonds may be, it would appear to be the trustee's duty to have it registered if he gives his co-trustee separate access to the securities.<sup>6</sup> In that case the coupons only remain

<sup>1</sup> *Dyer v. Riley*, 51 N. J. Eq. 124.

<sup>2</sup> *Jones v. Lewis*, 2 Ves. Sen. 240.

<sup>3</sup> *Matthews v. Brise*, 6 Beav. 239.

<sup>4</sup> *Field v. Field*, L. R. 1894, 1 Ch. 425.

<sup>5</sup> *Mendes v. Guedalla*, 2 Johns. & Hem. 259, 278.

<sup>6</sup> *Lewis v. Nobbs*, L. R. 8 Ch. D. 591, 594.

negotiable, and as one trustee may collect income alone, he could be reasonably allowed separate control of these.<sup>1</sup>

There is no question that a trustee who should neglect for a long time to examine the securities, as for instance for four years,<sup>2</sup> or who should confide them to his co-trustee in an unusual manner,<sup>3</sup> would be liable.

In any event, it would seem a wise precaution to register bonds where possible, but the trustee is not bound to do so where it is not customary with prudent men to do so in caring for their own securities.

In general a trustee is bound to take the same care of the trust property which any bailee is bound to take of the property put in his charge, or such care as a prudent man would take of his own.

**Conversion.** — The form in which the property usually exists at the formation of the trust, in part at least, is not adapted to trust purposes ; but is generally more adapted to the needs of the individual than to the requisites of successive estates.

An individual may be engaged in business, in a partnership, or in the management of his property for the purposes of gain, and rarely in this country has his property permanently invested without some regard to speculative value.

Thus where the maker of a trust transfers a partnership, business risk, speculative or unproductive property, to a trustee, or in fact any property which the trustee would not be authorized to invest in under the terms of the instrument or prevailing law, he must immediately and without delay proceed to convert all such property into investments authorized by the terms of the trust, and will have the implied power to do so.<sup>4</sup>

<sup>1</sup> *Supra*, p. 48.

<sup>2</sup> *Mendes v. Guedalla, ubi supra*, 277.

<sup>3</sup> *Matthews v. Brise*, 6 Beav. 239.

<sup>4</sup> *Kinmouth v. Brigham*, 5 Allen, 270; *Ames*, 491, n. ; *Brown v. Gallatly*, 2 Ch. App. 751.

Vacant land, even if it have a large prospective value, should be converted, since trust property should yield the usual income to the life tenant. All undivided estates should be converted, since the trustee has not the absolute control over them; leaseholds,<sup>1</sup> and all wasting investments, such as stocks in land companies and mines, &c., in which the principal is being consumed in dividends to the life tenant, should be converted into trust investments.

If the trustee delay beyond a reasonable time, he will be liable for any loss of the property; but where the time within which the conversion is to be made is expressly left to his discretion, he will be protected in a reasonable use of his discretion.

On the other hand, if the settlor has provided for the continuation of his business, or the holding of his securities, or if he has left his property prudently and permanently invested, not with a view to speculation, the trustee should not convert it, unless the investments are such as he is forbidden to make by the terms of the settlement or by law,<sup>2</sup> since he is entitled to put confidence where the settlor did, and the settlor has impliedly authorized these investments, and in some jurisdictions the trustee must go so far as to get an order of court to change the property from the form in which the testator left it.<sup>3</sup>

Thus, where the testator has left bonds that will sell for a large premium,<sup>4</sup> which therefore yield a very small return on the money invested, the trustee need not sell and reinvest. Nor will he be held responsible for not selling a stock at par, which afterwards became worthless,<sup>5</sup> if he used a reasonable discretion in the matter.

No conversion can be made of property which the settlor

<sup>1</sup> *Minot v. Thompson*, 106 Mass. 583.

<sup>2</sup> *Harvard College v. Amory*, 9 Pick. 446, 462.

<sup>3</sup> *Conn. Gen. Stat. (1888)*, § 496; but the distinction is doubted. *Perry*, § 465.

<sup>4</sup> *N. Eng. Trust Co. v. Eaton*, 140 Mass. 532.

<sup>5</sup> *Bowker v. Pierce*, 130 Mass. 262.

meant to be enjoyed in specie; as, for instance, a house for the beneficiary to live in, or property to be sold at the end of the life estate,<sup>1</sup> or household goods and chattels meant for family use,<sup>2</sup> but such intention must be shown affirmatively, as the general rule is that all property is to be converted.<sup>3</sup>

Where specific real estate is left of which the beneficiary is to have the rents for life, the right to use the property in specie is implied;<sup>4</sup> but otherwise where the real estate is not specified. So, also, where the beneficiary is to have the dividends on the property, enjoyment in specie is not implied, unless the property yielding the dividends is specified.<sup>5</sup>

**Conversion of Real into Personal Property and Vice Versa.**—Unless the power be given by the trust instrument, the trustee may not convert the real property into personal, or *vice versa*, the reason of which seems to have originally depended on the different way in which real estate and personal property descend or could be disposed of by will.<sup>6</sup>

Thus, the trustee must not sell real estate and invest in bonds, or buy real estate with uninvested funds, unless they are the proceeds of a sale of real estate; for where real estate is sold by an administrator or guardian under order of court, the proceeds will be treated as real estate and not as personal;<sup>7</sup> but where the estate is sold and converted into personality under order of court by a trustee, it loses its character as real estate.<sup>8</sup> If the sale is

<sup>1</sup> Ervine's Appeal, 16 Pa. St. 256.

<sup>2</sup> See pages 108 and 147.

<sup>3</sup> Howe *v.* Lord Dartmouth, 2 White & Tudor L. C., 5th ed., 296; McDonald *v.* Irvine, 8 Ch. D. 101, 112.

<sup>4</sup> Perry, § 451.

<sup>5</sup> Boys *v.* Boys, 28 Beav. 436.

<sup>6</sup> Perry, § 605.

<sup>7</sup> Mass. Pub. Stat., ch. 142, § 9; Fidler *v.* Higgins, 21 N. J. Eq. 138; March *v.* Berrier, 6 Ired. Eq. 524; Shumway *v.* Cooper, 16 Barb. 556.

<sup>8</sup> Snowhill *v.* Snowhill, 2 Green's Ch. 20.

under a power in the trust instrument, the intention of the maker will govern as to whether the proceeds shall be considered as real estate or converted into personality by his authority.<sup>1</sup>

Evidently the trustee cannot use the personal property of the estate to improve the real estate,<sup>2</sup> and where the testator left an insurance policy on a building which was subsequently burned, rebuilding with the insurance money was held to be a conversion;<sup>3</sup> but buying in land to protect a debt from great loss, although a conversion, is an authorized conversion, and one that will be ratified by the court.<sup>4</sup>

By statute in many States, and by equity jurisdiction in others, a court may order a conversion,<sup>5</sup> and where it does so, the proceeds of land will not be treated as real estate.<sup>6</sup> But the court will not order a conversion where it is contrary to the wishes of the testator;<sup>7</sup> nor will it ratify an unauthorized one.

Where, however, it has become impossible to carry out the testator's wishes, the court will authorize a conversion on the *cy près* doctrine, which amounts to decreeing that the wishes of the testator shall be carried out in the nearest possible way, and seems to rest on his implied authority.<sup>8</sup>

Where, however, the trust is for an infant, the court will not usually authorize a conversion, and it has been denied that the court has the power to do so in the absence of statute, but such statutes exist in nearly all jurisdictions.<sup>9</sup> If an unauthorized conversion be made, the infant

<sup>1</sup> *Hovey v. Dary*, 154 Mass. 7.

<sup>2</sup> May by statute in Pa. Brightly's Dig. (1894), p. 2034, § 49.

<sup>3</sup> *Hassard v. Rowe*, 11 Barb. 22.

<sup>4</sup> *Billington's Appeal*, 3 Rawle, 48, 55. *Perry*, § 458, says it is not a conversion. *Oeslager v. Fisher*, 2 Pa. St. 467.

<sup>5</sup> *Anderson v. Mather*, 44 N. Y. 249; *Ex parte Jewett*, 16 Ala. 409.

<sup>6</sup> *Snowhill v. Snowhill*, 2 Green's Ch. 20.

<sup>7</sup> *Rogers v. Dill*, 6 Hill, 415.

<sup>8</sup> *Weeks v. Hobson*, 150 Mass. 377.

<sup>9</sup> *Rogers v. Dill*, 6 Hill, 415; *Williamson v. Berry*, 8 How. 495,

may elect to take the property or the proceeds at his majority.<sup>1</sup>

Where a trustee is given the power to invest and reinvest, or to sell and manage the property, a power to convert will be implied, and under the general language used in most modern settlements the power is generally impliedly given, if not expressly so.

**Investments.**—It is the trustee's duty to keep all the trust funds at all times fully invested, and if he neglects doing so he will be liable for interest for the period of any unreasonable delay.<sup>2</sup> What is an unreasonable delay is a question of fact depending on all the circumstances.<sup>3</sup>

Simple interest will be ordinarily computed, but in some cases the trustee will be chargeable with compound interest.<sup>4</sup>

For instance, if the fund is for accumulation he will be charged with compound interest, since it was his duty to have invested the interest as it accrued. So, too, if the property was invested in trade, since the profits will be presumed to have amounted to that;<sup>5</sup> but in this case the trustee may show that the actual profits were less, since the claim of the beneficiary is for actual profits or simple interest.<sup>6</sup>

In some jurisdictions the trustee will be charged compound interest as punishment for fraud, misbehavior, or

531; but the better authority seems to be that the court has the power to order a sale. *Wood v. Mather*, 38 Barb. 473; s. c. 44 N. Y. 249, affirmed on appeal; *Ex parte Jewett*, 16 Ala. 409.

<sup>1</sup> *Robinson v. Robinson*, 22 Iowa, 427; *Kaufman v. Crawford*, 9 *Watts & Sar.* 131.

<sup>2</sup> *Robinson v. Robinson*, 11 Beav. 371; *Cann v. Cann*, 33 *Weekly Rep.* 40.

<sup>3</sup> *Perry*, § 462, gives numerous examples.

<sup>4</sup> *Infra*, p. 127.

<sup>5</sup> *Elliott v. Sparrell*, 114 Mass. 404.

<sup>6</sup> *Atty. Gen. v. Alford*, 4 *DeG., M. & G.* 843, p. 851; *Utica Ins. Co. v. Lynch*, 11 *Paige*, 520. *Infra*, p. 127.

for disobeying the orders of court ;<sup>1</sup> but this doctrine is not general or commendable on principle, or universally followed. The true principle would seem to be "that the trustee is accountable for all interest and profits actually received by him from the trust fund, and for all which he might have obtained by due diligence and reasonable skill."<sup>2</sup>

If he was directed to invest in a particular stock or fund, the beneficiary may elect to take simple interest, or the number of shares the money would have purchased with the dividends.<sup>3</sup>

If the trustee has no express power under the trust instrument to change investments, the court can authorize a change, and will do so for good reason ;<sup>4</sup> and where an emergency exists and there is no opportunity to get a decree, will ratify a change made by the trustee without authority.

The property being once well invested, the investments should not be changed without a good reason ;<sup>5</sup> such as, for instance, that an investment has become insecure and the remainderman is likely to suffer loss, or because it has become unproductive and the life tenant is suffering loss.

The mere fact that the property has increased in value is not a sufficient reason to sell ; for "the doctrine can readily be pressed so far as to sanction a practice of trading and trafficking in trust securities, which would be attended with dangerous results to the trust fund" ;<sup>6</sup> but if it has acquired a speculative value much above its value as an investment, the investment should be changed so that the life tenant may receive the increase of income he is entitled to.

<sup>1</sup> *McKim v. Hibbard*, 142 Mass. 422; *Jennison v. Hapgood*, 10 Pick. 77.

<sup>2</sup> *Perry*, § 472, end; *Cruce v. Cruce*, 81 Mo. 676.

<sup>3</sup> *Ouseley v. Anstruther*, 10 Beav. 453, 456.

<sup>4</sup> *Murray v. Feinour*, 2 Md. Ch. 418.

<sup>5</sup> *N. Eng. Tr. Co. v. Eaton*, 140 Mass. 532, 533; *Murray v. Feinour*, 2 Md. Ch. 418; *Ward v. Kitchen*, 30 N. J. Eq. 31.

<sup>6</sup> *N. Eng. Tr. Co. v. Eaton*, 140 Mass. 532, 537.

The trustee's duty in investing the funds is a double one, namely, to invest them securely, so that they shall be preserved intact for the remainderman, and to invest them productively, so that they shall yield the current rate of interest to the life tenant. He must hold the scales evenly, and must not sacrifice the interest of either beneficiary; and the popular idea that security is the only consideration is erroneous, as the trustee is equally bound to get the customary income for the life tenant, and cannot sacrifice his interests to those of the remainderman.<sup>1</sup>

The trust instrument may, and ordinarily does, prescribe the kind or class of property in which the trustee may invest, and where it does so its provisions will supersede those of the court or legislature;<sup>2</sup> but being special powers they must be complied with strictly.

A general authority to the trustee to invest "at discretion" does not specify any kind of property,<sup>3</sup> and does not enlarge his powers.

If the trustee is authorized to invest in real securities or mortgages, the class will not be held to cover a bond secured by a mortgage of a railroad;<sup>4</sup> but a house for the occupation of the beneficiary has been held to be an investment in productive real estate.<sup>5</sup>

A testator not infrequently provides that his business shall be carried on by his trustees for a period after his death. In such case it is their duty to do so; but if the matter is permissive, they should not continue it against their judgment. A partnership cannot be continued after there is a change in the firm,<sup>6</sup> nor should the amount

<sup>1</sup> *Kinmouth v. Brigham*, 5 Allen, 270.

<sup>2</sup> *Womack v. Austin*, 1 So. Ca. 421; *Arnould v. Grinstead*, 21 Weekly Reporter, 155; *Denike v. Harris*, 84 N. Y. 89.

<sup>3</sup> *King v. Talbot*, 40 N. Y. 76.

<sup>4</sup> *Robinson v. Robinson*, 11 Beav. 371; *King v. Talbot*, 50 Barb. 453; but see *Knight v. Boston*, 159 Mass. 551, and dissenting opinion.

<sup>5</sup> *Schaffer v. Wadsworth*, 106 Mass. 19.

<sup>6</sup> *Cummins v. Cummins*, 3 Jo. & Lat. 64.

invested in it be increased.<sup>1</sup> Where it is impossible to comply with the investments required by the trust instrument, recourse must be had to the court for directions.<sup>2</sup>

What classes or kinds of investments are trust investments vary in different jurisdictions, and are determined in some by statute and in others by rule of court. Statutes in some jurisdictions are construed to be for the protection of the trustee merely, and not as forbidding other investments than those specified by law;<sup>3</sup> yet where such a statute exists, a trustee would be imprudent if he invested in other than the specified securities,<sup>4</sup> although he might be justified in not converting unspecified securities, if he took them from the testator.<sup>5</sup>

Where there is no statute or decision of the highest court fixing the class of securities in which a trustee may invest, he can safely follow the rule prescribed for the investment of the funds of savings banks.

In England the only kind of investments formerly allowed were in the government funds;<sup>6</sup> but in America the total absence of such securities in early times, and their relative scarcity in later times, gave rise of necessity to a different rule, called the American rule, which is in general terms that "a trustee must observe how men of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested."<sup>7</sup>

The courts and legislatures in various jurisdictions have,

<sup>1</sup> *McNeillie v. Acton*, 4 DeG., M. & G. 744.

<sup>2</sup> *McIntire's Adm'rs v. Zanesville*, 17 Ohio St. 352.

<sup>3</sup> *Clark v. Beers*, 61 Conn. 87.

<sup>4</sup> *Worrell's Appeal*, 23 Pa. St. 44.

<sup>5</sup> *Supra*, p. 90.

<sup>6</sup> Now under the Trustees Relief Acts a large field is opened. *Lewin*, ch. xiv. § 4.

<sup>7</sup> *Putnam, J., Harvard College v. Amory*, 9 Pick. 446, 461; *Mattocks v. Moulton*, 84 Me. 545; *King v. Talbot*, 40 N. Y. 76.

from this rule, evolved very different results, the court deciding in New York that a prudent man would not invest in the stocks of railroads, banks, manufacturing or insurance companies;<sup>1</sup> saying that "The moment a fund is invested in a bank, or insurance, or railroad stock, it has left the control of the trustees; its safety, and the hazard or risk of loss is no longer dependent upon their skill, care, or discretion in its custody or management, and the terms of the investment do not contemplate that it ever will be returned to the trustees";<sup>2</sup> but that the ideal man would invest in real estate, bonds of individuals secured by first mortgages of real estate, first mortgage bonds of corporations, and principal securities.

On the other hand, the courts of Massachusetts hold that a prudent man may invest, in addition to the class of securities allowed in New York, in the stocks of good business corporations, such as banks, railroads, manufacturing and insurance companies,<sup>3</sup> and in notes of individuals secured by the stock of such companies, and certificates of deposit of good banks.<sup>4</sup>

C. J. Field, in *Dickinson's Appeal*, 152 Mass. 184, at p. 187, lays down and explains the Massachusetts rule in part as follows:—

"A trustee in this Commonwealth undoubtedly finds it difficult to make satisfactory investments of trust property. The amount of funds seeking investment is very large; the demand for securities which are safe as is possible in the affairs of this world is great; and the amount of such securities is small, when compared with the amount of money to be invested. . . . A trustee, whose duty is to keep the trust fund safely invested in productive property, ought not to hazard the safety of the fund under any temptation to make extraordinary profits. . . .

<sup>1</sup> *King v. Talbot*, 40 N. Y. 76.

<sup>2</sup> *Woodruff*, J., in *King v. Talbot*, *ubi supra*.

<sup>3</sup> *Harvard College v. Amory*, 9 Pick. 446.

<sup>4</sup> *Hunt, Appellant*, 141 Mass. 515.

"Our cases, however, show that trustees in this Commonwealth are permitted to invest portions of trust funds in dividend paying stocks and interest bearing bonds of private business corporations, when the corporations have acquired, by reason of the amount of their property and the prudent management of their affairs, such a reputation that cautious and intelligent persons commonly invest their own money in such stocks and bonds as permanent investments."

In the hands of a good trustee the Massachusetts rule is undoubtedly superior, since it gives him a larger opportunity to use his skill and ability as a financier for the advantage of his beneficiaries; but undoubtedly the English rule, or the New York rule, is better adapted to inexperienced or ignorant trustees, as much less is left to their discretion, and unfortunately trustees are too often appointed from considerations of friendship, and not from consideration of their discretion or business ability.

The laws of the various States give a preponderance in favor of the Massachusetts rule, and a large majority of carefully drawn trust instruments give the trustees the larger discretion.<sup>1</sup>

The rule prevailing in each of various States is briefly stated at the end of this chapter.

The following kinds of investments are everywhere disapproved, viz.: loans on personal security merely;<sup>2</sup> investment in unincorporated business ventures, partnership, and patent rights;<sup>3</sup> second mortgages<sup>4</sup> and mortgages on leasehold security,<sup>5</sup> however large the margin, since the first mortgage may be foreclosed; unproductive real estate,

<sup>1</sup> Perry, § 456, opines to the contrary. See note to Nyce's Estate, 40 Amer. Dec. 498.

<sup>2</sup> Holmes *v.* Dring, 2 Cox Eq. c. 1; Hunt *v.* Gontrum, 80 Md. 64.

<sup>3</sup> Trull *v.* Trull, 13 Allen, 407; Ames, 471, n.

<sup>4</sup> Gen. Stat. Conn. (1888), § 495; Mattocks *v.* Moulton, 84 Me. 545; Porter *v.* Woodruff, 36 N. J. Eq. 174; Ames, 485, n.

<sup>5</sup> Slauter *v.* Favorite, 107 Ind. 292, 296.

and all investments of an untried<sup>1</sup> or speculative nature. Investments without the jurisdiction of the trustee are not usually approved, but, if they are in conformity with the purposes of the trust, will be sanctioned.<sup>2</sup>

Having ascertained the kind of investments he may make, the trustee must exercise a sound discretion in selecting investments within the authorized class.<sup>3</sup> That is to say, he must exercise the same degree of intelligence and diligence that a man of average ability would exercise in making his own investments;<sup>4</sup> and a provision of the settlement giving him unlimited discretion does not alter his duty to use care, although it may, but will not necessarily, extend the class of investments in which he may invest.<sup>5</sup>

The question of whether there was a sound exercise of discretion<sup>6</sup> will be determined according to the state of facts as they existed when the investment was made, and not in the light of later developments; but as these are sometimes difficult to reproduce, or may be forgotten, any memorandum of the inducements made at the time may be of service in refreshing the recollection.

Where the class of investments allowed is large, it has been held imprudent to invest more than a fifth part of the estate in one investment.<sup>7</sup>

The margin of security required on a mortgage loan is generally fixed either by decision,<sup>8</sup> or by statute at one half, but the amount of margin required also depends on the nature of the estate, a less margin, say one third,

<sup>1</sup> *Kimball v. Reding*, 31 N. H. 352.

<sup>2</sup> *Ames*, 486, n.; *Amory v. Green*, 13 Allen, 413; *Ormiston v. Olcott*, 84 N. Y. 339.

<sup>3</sup> *Womack v. Austin*, 1 So. Ca. 421; *Re Whiteley*, 33 Ch. Div. 347, 350; *Ormiston v. Olcott*, 84 N. Y. 339.

<sup>4</sup> *In re Salmon*, 42 Ch. Div. 351; *Harv. Coll. v. Amory*, 9 Pick. 446.

<sup>5</sup> *Tuttle v. Gilmore*, 36 N. J. Eq. 617; *King v. Talbot*, 40 N. Y. 76.

<sup>6</sup> *Brown v. French*, 125 Mass. 410.

<sup>7</sup> *Dickinson's Appeal*, 152 Mass. 184.

<sup>8</sup> *In re Salmon*, 42 Ch. Div. 351.

being required where the values are more stable. In England farming lands were considered the most stable, but in America business property in a city would probably be so considered.

Where, however, the settlement provided that the trustee should not be liable for loss on account of taking insufficient security, he was not excused for making an unauthorized loan to a person unsecured,<sup>1</sup> since the loss was on account of going outside of the class and not because the investment was poor of its kind.

**Investments Allowed in various States.—Alabama.**—By statute may invest in securities of State or United States. Code (1896), § 4174. Constitution forbids any law authorizing trustees to invest in bonds or stocks of private corporation. See *Randolph v. E. Birmingham Land Co.*, 104 Ala. 355. English rule laid down, but statute not alluded to.

**Arkansas.**—No authorities.

**California.**—American rule. Civil Code (1885), § 2261; *In re Cousins's Estate*, 111 Cal. 441.

**Colorado.**—English rule. Statutes (1891), §§ 2094, 2095. United States securities, State warrants, or year notes secured by same. Constitution, § 359. See Alabama.

**Connecticut.**—Rev. Stat. (1888), § 495. First mortgages to fifty per cent of value; United States, State, town, or city bonds, and savings bank securities. Statute not mandatory, but there is a rigid responsibility for other investments. *Clark v. Beers*, 61 Conn. 87.

**Dakota.**—Civil Code (1887), § 3943. American rule, no decisions.

**Delaware.**—Massachusetts rule. *Massey v. Stout*, 4 Del. Ch. 274, 288.

**Florida.**—Rev. Stat. (1892), § 2189. Bank stocks. Stat. 1892, §§ 1936 and 2095. Mortgages and United

<sup>1</sup> *Ryder v. Bickerton*, 3 Swanst. 80, n.

States or State securities, which are free of taxation, or others ordered by court. These statutes refer to executors and guardians, and not expressly to trustees, but trustees would be safe in following the same rules.

*Georgia.* — Code (1895), § 3180. In stocks, bonds, or other securities issued by State. Any other investment must be made under order of court. *Brown v. Wright*, 39 Ga. 96.

*Idaho.* — No authority.

*Illinois.* — Massachusetts rule. *Sholty v. Sholty*, 140 Ill. 82; *Sherman v. White*, 62 Ill. App. 271.

*Indiana.* — Mortgage securities allowed on sale. Rev. Stat. (1894), §§ 3415, 3416. Massachusetts rule approved in *Slauter v. Favorite*, 107 Ind. 292, 296; *Shuey v. Latta*, 90 Ind. 136; but in *Tucker v. State*, 72 Ind. 242, New York rule approved.

*Iowa.* — Code (1897), § 364. Stocks and bonds of United States and State, and mortgages at fifty per cent of value.

*Kansas.* — No authorities.

*Kentucky.* — Stat. (1894), § 4706. Real estate, mortgages, stocks and bonds, or loans secured by. But not in railroads unless operated ten years without defaulting, or municipal securities that have not defaulted within ten years. Statute not mandatory. Substantially Massachusetts rule. *Fidelity Co. v. Glover*, 14 So. W. Rep. 243; s. c., 90 Ky. 355.

*Louisiana.* — No authorities.

*Maine.* — Massachusetts rule. *Mattocks v. Moulton*, 84 Me. 545; *Emery v. Batchelder*, 78 Me. 233.

*Maryland.* — *Hunt v. Gontrum*, 80 Md. 64 (*semble*). English rule. Trustee appointed by court should get its directions. *Lowe v. Convention of Prot. Ep. Ch.*, 35 Atl. Rep. 87; s. c., 83 Md. 409.

*Massachusetts.* — Massachusetts rule, *ubi supra*.

*Michigan.* — No authorities.

*Minnesota.* — Under direction of court. Stat. (1894), § 4284.

*Mississippi.* — Massachusetts rule. *Smyth v. Burns*, 25 Miss. 422; *Coffin v. Bramlitt*, 42 Miss. 194.

*Missouri.* — Massachusetts rule. *Gamble v. Gibson*, 59 Mo. 585; *Taylor v. Hite*, 61 Mo. 142, 144; *Drake v. Crane*, 127 Mo. 85, 106; *Garesché v. Priest*, 9 Mo. App. 270.

*Montana.* — Civil Code (1895), § 3013. Reasonable security and interest.

*Nebraska.* — No authority.

*Nevada.* — No authority.

*New Hampshire.* — Pub. Stat. (1891), ch. 198, § 11, ch. 178, § 9. In notes secured by mortgage of real estate worth at least double, in savings banks, or bonds and loans of State, city, town, or county of New Hampshire, or of the United States, and in no other way.

*New Jersey.* — Gen. Stat. (1895), p. 2401, §§ 196, 197. Allows mortgage fifty per cent, rate of interest not less than five per cent, not over six per cent. Rule of court English rule, bonds, mortgages of State or United States. *Lathrop v. Smalley's Ex'rs*, 23 N. J. Eq. 192; *Halsted v. Meeker's Ex'rs*, 18 N. J. Eq. 136; *Tucker v. Tucker*, 33 N. J. Eq. 235.

*New York.* — New York rule, *ubi supra*. Rev. Stat., Codes, etc. (1896), p. 2747, ch. 65. Authorizes investments in bonds of New York cities.

*North Carolina.* — Code (1883), §§ 1594 and 3596. In United States bonds or any bonds guaranteed by United States, and in State bonds. Statute not mandatory. Massachusetts rule approved. *Moore v. Eure*, 7 So. E. Rep. 471 (N. C.); s. c., 101 N. C. 11.

*North Dakota.* — Rev. Code N. Dak. (1895), § 4286. Reasonable security and interest. American rule. No authorities.

*Ohio.* — Rev. Stat. (1890), § 6413. Certificate of indebtedness of State or United States, or as approved by court.

*Oregon.* — No authorities.

*Pennsylvania.* — Const., Art. 3, § 69. No bonds or stocks of business corporation. Stat. Brightly's Purdon's Dig. (1894), p. 594, §§ 121, 122, 123. Court may authorize investments in debt of United States, State, or Philadelphia, and real securities; bonds or certificates of debt of school districts, municipal corporations of State, or by leave of court in ground rents or other real estate. Statute mandatory. Hemphill's Appeal, 18 Pa. St. 303; Baer's Appeal, 127 Pa. St. (1889), 360.

*Rhode Island.* — Gen. Laws (1896), ch. 208, § 12, gives trustees full power and discretion. Massachusetts rule followed, but should invest under order of court. Peckham *v.* Newton, 15 R. I. 321; Grinnell *v.* Baker, 23 Atl. Rep. 911; s. c., 17 R. I. 41.

*South Carolina.* — *Semble*, Massachusetts rule. Should loan on mortgage if possible; if not, should loan on good security. Nance *v.* Nance, 1 So. Car. 209; Singleton *v.* Lowndes, 9 So. Car. 465; Nobles *v.* Hogg, 15 So. E. Rep. 359, and 36 So. Car. 322.

*Tennessee.* — Code (1896), § 5434. In public stocks and bonds of United States, and report to county court.

*Texas.* — Massachusetts rule. Finlay *v.* Merriman, 39 Tex. 56.

*Vermont.* — Revised Laws (1894), § 2617. In real estate, or such other manner as court directs. *Semble*, Massachusetts rule. Barney *v.* Parsons, 54 Vt. 623 (1882); McCloskey *v.* Gleason, 56 Vt. 264.

*Virginia.* — *Semble*, Massachusetts rule. Davis *v.* Harman, 21 Gratt. 194, p. 201.

*Washington.* — Massachusetts rule in practice, no authority.

*West Virginia.* — *Semble*, English rule. Key *v.* Hughes, 32 W. Va. 184, 189.

*Wisconsin.* — English rule. Real estate or government securities, or as court directs. Simmons *v.* Oliver, 74 Wisc. 633.

*Wyoming* — No authority.

**Principal and Income.** — *Receipts.* — As different persons are entitled to the principal and income of the trust fund, the determination of whether a receipt or charge shall belong to principal or income is of great importance, and the erroneous determination of the question may make the trustee liable for a large amount; as, for instance, where he has paid the life tenant sums of money which belonged to principal, and should have been invested, and these he has no right to recover back in most cases,<sup>1</sup> and which even if he have the right he may not be able to recover back owing to the beneficiary's want of financial responsibility. In fact, the question will usually arise after the death of the life tenant, when the remainderman comes into possession, and when it is too late to recoup from the income.

In general, at the time the estate comes into the trustee's hands it is all principal, in whatever condition it may happen to be, and all yearly increase thereafter is income. This would always be the case where the property comes into the trustee's hands without delay and invested in proper trust securities; but if there is a deferred receipt on the conversion of the estate, the rule is different.

Where for any reason property does not come into the hands of the trustee for some time after the beginning of the trust, and in the meanwhile the life tenant has no benefit from it, the fund when realized must be so apportioned that the life tenant will get the usual rate of interest from the beginning of the trust, and the remainder will be the principal fund.<sup>2</sup>

This may be the case where the amount of a legacy or other fund is not immediately received or not received in full,<sup>3</sup>

<sup>1</sup> *Bate v. Hooper*, 5 DeG., M. & G. 338; *Downes v. Bullock*, 25 Beav. 54, 59, 62. See *L. Langdale, Fyler v. Fyler*, 3 Beav. 550, 563, for striking example, and *infra*, p. 154.

<sup>2</sup> *Kinmouth v. Brigham*, 5 Allen, 270; *Hagan v. Platt*, 48 N. J. Eq. 206; *Westcott v. Nickerson*, 120 Mass. 410.

<sup>3</sup> *Cox v. Cox*, L. R. 8 Eq. 343.

or where the property being an unsuitable investment is sold for conversion at an interval after the trust went into effect.

The rule is the same whether the property be converted because it is unproductive, as for instance vacant land, a bottomry bond or similar security where the principal and income are included in one sum, or a defaulted note or obligation on which the whole amount is not recovered, or where an obligation is in default and the security has been realized on; or whether it be converted because the earnings are greatly in excess of interest, as in the case of a business or partnership, or on a wasting investment such as a land stock where the dividends will ultimately exhaust the security. In either case the rule is the same, namely, that sum is to be found which at the current rate of interest for the period from the beginning of the trust to the time of conversion will yield the amount realized. The sum so ascertained is the principal, and the interest is the income payable to the immediate beneficiary.

For instance, in a case where a trustee who had wasted the estate was removed and only part of the estate was recovered by his successor, the amount of the original estate was \$30,000, and the whole amount recovered after one year and two months was \$26,000. The tenant for life got \$1,742.50, which is the interest at six per cent on \$24,257.50, the new capital for one year and two months;<sup>1</sup> but where the return is excessive, if a definite intention on the part of the maker of the trust can be shown that the life beneficiary shall have all the proceeds, i. e. shall enjoy the income in specie, his intention will prevail, and the whole profits will be paid to the life tenant as income.<sup>2</sup>

<sup>1</sup> Parsons *v.* Winslow, 16 Mass. 361; Maclaren *v.* Stainton, L. R. 11 Eq. 382.

<sup>2</sup> Howe *v.* Lord Dartmouth, 2 White & Tudor L. C. Eq., 6th Am. ed., 296; Corle *v.* Monkhouse, 47 N. J. Eq. 73; Westcott *v.* Nickerson, 120 Mass. 410.

The amount recovered as damages for an injury or a taking<sup>1</sup> need not be apportioned, as the fund invested will yield an income,<sup>2</sup> and the amount recovered will bear interest from the time of the taking.

The converse proposition, i. e. the payment of a betterment or removal of an involuntary encumbrance, falls under the same rule.

**Gain and Loss.**—The general rule is that any gain other than the usual yearly income, and any loss other than the usual yearly charges, fall to the principal of the fund.

Thus real estate or securities may advance largely in value without any corresponding increase in income, and the whole gain will belong to the principal of the fund,<sup>3</sup> and the life tenant will get no benefit from the increase, unless he be in a position to insist on a sale and reinvestment of the property, so as to yield an adequate return.<sup>4</sup>

<sup>1</sup> Heard *v.* Eldredge, 109 Mass. 258.

<sup>2</sup> Van Vronker *v.* Eastman, 7 Met. 157.

<sup>3</sup> N. Eng. Trust Co. *v.* Eaton, 140 Mass. 532. *In re Gerry*, 103 N. Y. 445, 450. Gain on foreclosure: Parker *v.* Johnson, 37 N. J. Eq. 366.

<sup>4</sup> The learned editor of the 4th edition of Perry on Trusts very justly suggests that some doubt has been thrown on this question, so far as it concerns the gain in value of stocks, in a few jurisdictions by the principles laid down by the courts in their decisions in collateral matters. Perry, § 545, n. 1.

In Wiltbank's Appeal, 64 Pa. St. 256, where the trustee subscribed for new stock given as a bonus, sold the subscription at a premium, the court decided that the premium was a product of the stock and belonged to the life beneficiary. And in Earp's Appeal, 28 Pa. St. 368, the court seemed to imply that any increase in value of stock from accumulated profits belongs to the life beneficiary. And in Van Doren *v.* Olden, 19 N. J. Eq. 176, the Chancellor decided that all accumulations since the purchase of the stock belonged to the life tenant, and sent the case to a master to determine how much they were.

It is to be noticed that in none of these cases was the exact question raised as to whom the appreciation in value of stock belonged, and whether the same was income or principal; although the language of the decisions seems to cover this point as well as the question of accu-

Gain or loss in continuing a business temporarily until it is converted is to be apportioned,<sup>1</sup> but where the business is conducted under direction of the trust instrument, ordinarily all the income will go to the life beneficiary,<sup>2</sup> and the loss of one year will be made up out of the profit of the next; but it is wholly a question of intention to be determined by the construction of the trust instrument.

If the trust estate consists of country real estate, timber cut for thinning will be income, other timber principal, and it has been held that gravel sold will be income, but probably not to such an extent as to be waste.<sup>3</sup>

mulations of income. I am not aware that it has been seriously contended that a different rule should be applied to the increase in value of stocks from that applied to the increase in value of real estate; yet these cases do seem to indicate that in those jurisdictions any accumulations of profits belong to income and not principal; which throws the whole question into doubt, since it is impossible to tell infallibly, in the case of any corporation, how much of their savings are properly set aside as a necessary fund to carry on the business, or reserves against depreciation, and how much of the funds are excess of profit which might be properly distributed.

In such questions the practical solution is the determination of the matter by the directors, in which case all sums added to the funds of the company become part of the principal and the property of the remaindermen.

The premium realized by the sale of the stock is no better criterion, since the experience of every business man will show him that the fluctuations in the prices of stock are chiefly governed by the state of business and many other considerations, and are affected very little by the amount of accumulated income in the treasury. *Hemmenway v. Hemmenway*, 134 Mass. 446.

As the principal question was not raised in these cases, and as carrying out their reasoning to its logical conclusion would involve such anomalous results, it would seem that trustees may act safely, even in these jurisdictions, on the rule above stated, and credit all gains in value in stocks as well as real estate to principal, and in other jurisdictions this principle is established beyond a doubt. See *New England Trust Co. v. Eaton*, 140 Mass. 532.

<sup>1</sup> *Underhill*, 250.

<sup>2</sup> *Heighe v. Littig*, 63 Md. 301.

<sup>3</sup> *Earl Cowley v. Wellesley*, L. R. 1 Eq. 657.

If the trust property consists in part of chattels, which are intended to be used and not converted into cash and invested, the life tenant may wear them out in ordinary use, and need not replace them.<sup>1</sup>

If the property consists of farming stock it should be converted,<sup>2</sup> unless intended to be used in specie.

The life tenant cannot sell it, even though it be replaced by other kind of stock; as, for instance,<sup>3</sup> where cows are unprofitable, they cannot be replaced by horses, but the beneficiary for life may use them up, and need not replace them when they die;<sup>4</sup> and the natural increase will belong to him.<sup>5</sup> Where, however, the stock is left with a farm, and there is an intention expressed or implied that the farm shall be kept up, so much of the increase as is necessary to keep up the herd will belong to principal, and only the excess to income.<sup>6</sup>

Implements, furniture, and cattle, in fact all property that will wear out in use, must be bought out of income. And where it is necessary to replace chattels which are wearing out in use, the trustee may withhold some of the yearly income to make a sinking fund for that purpose.<sup>7</sup>

Any income which is rightfully accumulated and added to the principal, will lose its character as income and become a gain to principal.<sup>8</sup>

<sup>1</sup> Wootten *v.* Burch, 2 Md. Ch. 190. See *infra*, p. 147; *supra*, p. 91; Woods *v.* Sullivan, 1 Swan's, 507.

<sup>2</sup> Burnett *v.* Lester, 53 Ill. 325.

<sup>3</sup> Leonard *v.* Owen, 93 Ga. 678.

<sup>4</sup> Poindexter *v.* Blackburn, 1 Ired. Eq. 286; Braswell *v.* Morehead, 57 Am. Dec. 586, n.; Saunders *v.* Haughton, 57 Am. Dec. 581.

<sup>5</sup> Saunders *v.* Haughton, 8 Ired. Eq. 217; Lewis *v.* Davis, 3 Mo. 133; Major *v.* Herndon, 78 Ky. 124; Hunt *v.* Watkins, 1 Humph. (Tenn.) 498.

<sup>6</sup> Calhoun *v.* Furgeson, 3 Rich. Eq. 160; Robertson *v.* Collier, 1 Hill Eq. 370 (S. C.). But see Flowers *v.* Franklin, 5 Watts (Pa.), 265; life tenant was to keep up farm; increase held to go to remainderman.

<sup>7</sup> Re Housman, 4 Dem. 404.

<sup>8</sup> Minot *v.* Tappan, 127 Mass. 333.

**Dividends.** — The current dividends on stocks belong wholly to income, even when the stock has been bought at a premium, since the premium is only a part of the price paid for an investment, or a definite share in a property or business, which is presumably worth the price paid, and any gain or loss in price is the gain or loss of the principal.<sup>1</sup>

If, however, the investment is a wasting one, such as a mining or land stock, the tenant for life will be entitled to receive only the current rate of interest on the inventory or cost value of the investment, and the balance will be applied to reduce the valuation, and the amount which he is entitled to receive will be calculated each year on the new principal made by the credits of the preceding dividends.<sup>2</sup>

When the excess of the dividends has thus entirely wiped out the cost of the investment, all the dividends will go to principal, and the life tenant, though an apparent loser, is not, because he will receive the dividends on the new investments to the same amount which was originally invested, which is all he is entitled to.

The rule has already been explained as to the receipts from an investment, which is not a proper trust investment, and therefore to be converted.<sup>3</sup>

**Extra Dividends.** — The law is not uniform in all jurisdictions as to whom extra dividends belong.<sup>4</sup>

The rule originally laid down was that cash dividends are income, and stock dividends principal,<sup>5</sup> but recent decisions are to the effect that it is immaterial whether the

<sup>1</sup> N. Eng. Trust Co. *v.* Eaton, 140 Mass. 532. See note, p. 106.

<sup>2</sup> Such investments should ordinarily be converted. *Supra*, p. 89. Or the life tenant may be entitled to the full dividend by the terms of the settlement. *Reed v. Head*, 6 Allen, 174.

<sup>3</sup> *Supra*, p. 105.

<sup>4</sup> Subject treated, Underhill, p. 226, n.; Perry, § 545 and n.

<sup>5</sup> *Barclay v. Wainewright*, 14 Ves. Jun. 66; Ladd, J., in *Lord v. Brooks*, 52 N. H. 72, 77.

dividend be in stock, money, or the granting of a valuable right to take new stock.<sup>1</sup>

In Connecticut,<sup>2</sup> Maine,<sup>3</sup> and Rhode Island,<sup>4</sup> a distribution of stock was held to be principal, but in those cases, and especially in Brown's Petition, the court did not go beyond deciding the case in hand, and it would not be safe to assume that in another case under similar circumstances they would not follow the English rule. At any rate, they evidently disapprove the Pennsylvania rule.<sup>5</sup>

By the English rule followed in Massachusetts,<sup>6</sup> New York,<sup>7</sup> Georgia,<sup>8</sup> and the United States Supreme Court,<sup>9</sup> it is well settled that, if the distribution be part of the surplus earnings, it will be income and the property of the life beneficiary, but if it be a distribution of part of the company's capital, it will belong to the principal or remainderman. That the company may in good faith add part of its profits to its capital, and if it does so the life beneficiary cannot complain, as he will get the benefit of the increased efficiency.<sup>10</sup>

It follows, therefore, that, in determining whether a dividend is income or principal, the vote ordering the dividend is the best or only guide as to whether the distribution is one of the company's surplus earnings or of its principal fund.<sup>11</sup>

In Pennsylvania the question has been otherwise de-

<sup>1</sup> Earp's Appeal, 28 Pa. St. 368; Vinton's Appeal, 99 Pa. St. 434; Leland *v.* Hayden, 102 Mass. 542, 550.

<sup>2</sup> Brinley *v.* Grou, 50 Conn. 66.

<sup>3</sup> Richardson *v.* Richardson, 75 Me. 570.

<sup>4</sup> Greene *v.* Smith, 17 R. I. 28; Brown, Pet'r, 14 R. I. 371.

<sup>5</sup> *In re Barton's Trusts*, L. R. 5 Eq. 238.

<sup>6</sup> Heard *v.* Eldredge, 109 Mass. 258.

<sup>7</sup> Kernochan's Case, 104 N. Y. 618.

<sup>8</sup> Ga. Code (1895), § 3091; Millen *v.* Guerrard, 67 Ga. 284.

<sup>9</sup> Gibbons *v.* Mahon, 136 U. S. 549.

<sup>10</sup> Granger *v.* Bassett, 98 Mass. 462.

<sup>11</sup> *In re Barton's Trusts*, *ubi supra*; *Re Bouch*; *Sproule , 29 Ch. D. 635; *Rand , 115 Mass. 461.**

cided, the court going on the principle that all the accumulations of the company during his lifetime belong to the life beneficiary, whether they be declared in the form of dividends or not,<sup>1</sup> and this view of the case has been followed in New Jersey,<sup>2</sup> New Hampshire,<sup>3</sup> and South Carolina,<sup>4</sup> and that a master is to be appointed to ascertain the amount.

Accordingly, where a valuable right to subscribe to new stock was given, in Massachusetts<sup>5</sup> it was held to be principal and in Pennsylvania<sup>6</sup> income.

The Pennsylvania rule has been repeatedly criticised,<sup>7</sup> and it scarcely seems possible to carry the cases to their logical conclusion; which would seem to be, that, regardless of any act of the corporation, a master should ascertain yearly what the company's profits had been, and that an equivalent amount should be paid to the life beneficiary, and in case of loss he should make it up to the remainderman, which result is certainly impracticable if nothing else.<sup>8</sup>

**Ordinary Dividends not Apportioned.** — No part of a company's property belongs to a stockholder until it is separated and declared as a dividend; hence a dividend is an independent debt payable to the stockholders of a certain day, and remains principal until separated from the other funds and declared payable to the stockholders,<sup>9</sup> and therefore is never apportionable, and is always pay-

<sup>1</sup> Earp's Appeal, 28 Pa. St. 368.

<sup>2</sup> Van Doren *v.* Olden, 19 N. J. Eq. 176; 97 Amer. Dec. 650.

<sup>3</sup> Lord *v.* Brooks, 52 N. H. 72.

<sup>4</sup> Cobb *v.* Fant, 56 S. C. 1.

<sup>5</sup> Atkins *v.* Albree, 12 Allen, 359.

<sup>6</sup> Wiltbank's Appeal, 64 Pa. St. 256.

<sup>7</sup> Perry, § 545; learned note by Frank Parsons.

<sup>8</sup> See Underhill, 226, n. 1.

<sup>9</sup> Lowell, Transfer of Stock, § 52, n. 3, authorities; Perry, § 545; Granger *v.* Bassett, 98 Mass. 462; Bates *v.* McKinley, 31 Beav. 280; but see *supra*, note 4, p. 106.

able, no matter when paid, to the stockholder entitled at the time specified in the vote;<sup>1</sup> but if the trustee sold a stock just before the dividend day to defraud the life tenant or buy land according to the terms of the trust instrument,<sup>2</sup> the life beneficiary would be entitled to so much of the proceeds as would equal the dividend lost by the sale.

**Interest sometimes Apportioned.** — All rents and generally the whole amount received as interest is income, and the English rule in this matter is not subject to any exception.<sup>3</sup>

In some States, if a bond is purchased at a premium, sufficient of the interest must be set aside yearly to wipe out the premium at the maturity of the obligation, since a bond purchased at a premium is a wasting security, which would otherwise, out of justice to the remainderman, have to be converted;<sup>4</sup> but it follows that no part of the interest on a bond which is part of the property originally settled need be credited to principal, since there is no obligation to convert the bond, even though it be worth more than par.<sup>5</sup>

The practice of buying bonds which sell at a discount, to balance those bought at a premium, is not sound, as the difference of price is not simply a question of interest, but is more often one of security, nor can the loss on one investment be set off against the gain on another.<sup>6</sup>

Interest accrues from day to day, and will therefore be apportioned upon a sale of the security on which it accrues, or upon the termination of the life estate.<sup>7</sup> The interest accruing up to the date of sale or death being income, and the balance belonging to, and being part of, the security

<sup>1</sup> *Clive v. Clive, Kay*, 600. *Contra, Johnson v. Bridgewater Mfg. Co.*, 14 Gray, 274.

<sup>2</sup> *Londesborough v. Somerville*, 19 Beav. 295.

<sup>3</sup> *Hemenway v. Hemenway*, 134 Mass. 446, 450.

<sup>4</sup> *Ibid.*

<sup>5</sup> *Shaw v. Cordis*, 143 Mass. 443.

<sup>6</sup> *Infra*, p 126.

<sup>7</sup> *Dexter v. Phillips*, 121 Mass. 178.

turned over. And this is the rule even where the debt is secured by a bond or mortgage.<sup>1</sup> But where the interest is payable by a coupon, which might be detached and sold separately,<sup>2</sup> and would then be a separate bond, the rule, in the absence of statute, is otherwise, and there is no apportionment; but where the statute exists, even coupons are apportioned.<sup>3</sup>

In some jurisdictions there are statutes apportioning rents and coupons on the termination of a life estate settled by will.<sup>4</sup> This statute does not apply to settlements made by deed, which are governed by the common law.

**Payments.** — Any loss to the fund by depreciation of the market value of the property belongs to principal, and a loss occasioned by a breach of trust stands on the same footing.<sup>5</sup>

**Discharge of Encumbrance.** — If there is an encumbrance on the estate, as, for instance, a mortgage, if at once discharged it is paid from the remainder, but if carried<sup>6</sup> the interest is chargeable to income, and the principal to the corpus of the fund, and this is true even when the estate is not charged until a long period — say ten years — after the settlement.<sup>7</sup>

Similarly, where the trustees are compelled to discharge an involuntary encumbrance, such as a betterment assessment<sup>8</sup> or judgment, the cost is apportioned between income and principal. The whole amount is charged to principal and deducted from the estate of the remainderman, and

<sup>1</sup> *Dexter v. Phillips*, 121 Mass. 178.

<sup>2</sup> *Clark v. Iowa City*, 20 Wall. 583, 589.

<sup>3</sup> *Adams v. Adams*, 139 Mass. 449.

<sup>4</sup> Mass. Pub. Stat. (1882), ch. 136, § 25.

<sup>5</sup> *Parsons v. Winslow*, 16 Mass. 361.

<sup>6</sup> *Van Vronker v. Eastman*, 7 Met. 157.

<sup>7</sup> *MacLaren v. Stainton*, L. R. 11 Eq. 382.

<sup>8</sup> A betterment assessment is a tax, but not an ordinary one, and as between life tenant and remainderman is treated as an encumbrance. *Plympton v. Boston Dispensary*, 106 Mass. 544.

the income is charged interest thereon yearly, or the interest may be funded and charged in a lump; or if the life tenant and remainderman are beneficiaries of the same funds, the principal is paid out of the corpus, and the life tenant loses interest and the remainderman the principal.

**Alterations and Repairs.** — Alterations and additions to real estate whereby the usefulness or rental value is increased are chargeable to principal,<sup>1</sup> but the repairs or expenditures which are necessary to maintain the property in proper condition are chargeable to income.<sup>2</sup>

It is often a difficult question of fact to decide whether a specified expenditure is an addition to the property or a current repair; but the rule may be stated that, where repairs improve the property to the extent of their cost, they are chargeable to principal, and are a judicious investment of the trust funds.<sup>3</sup>

For instance, the addition of an elevator to a building which previously had none will be charged to principal, while putting in a new elevator in the place of an old one will be a repair chargeable to income.<sup>4</sup>

So also an expenditure may be in the nature of both an addition and a repair, and is then chargeable to principal only to the extent to which it benefits the property; and in some States<sup>5</sup> there are statutes allowing an apportion-

<sup>1</sup> *Sohier v. Eldredge*, 103 Mass. 345; *Caldecott v. Brown*, 2 Hare, 144.

<sup>2</sup> Underhill, pp. 250, 251, states that in the absence of express provision in the settlement, the equitable life tenant is not bound to repair, and so all repairs should be made under order of court and apportioned by it. The English cases have arisen almost exclusively where the property was in the possession of the equitable life tenant, and not being managed as an investment by the trustees as is general in America. Lewin, pp. 642, 644. In America the rule is as stated in the text, and a trustee should charge necessary current repairs to income. *Parsons v. Winslow*, 16 Mass. 361; *Hepburn v. Hepburn*, 2 Bradf. (N. Y.) 74; *Little v. Little*, 161 Mass. 188.

<sup>3</sup> *Sohier v. Eldredge*, 103 Mass. 345.

<sup>4</sup> *Little v. Little*, 161 Mass. 188.

<sup>5</sup> Pennsylvania.

ment in such cases. And in any case of doubt, it is well to get the instructions of the court before undertaking an extensive job, which, if charged wholly to the income, might be very burdensome.<sup>1</sup>

All expenditures on newly acquired property which are necessary to put it in condition to let or to hold, whether they are in the nature of repairs or additions, are chargeable to principal. For instance, fencing in land or repairing a house to obtain a tenant. These expenses, although chargeable to income at other times, on the acquisition of a new estate will be considered as so much additional purchase money, and chargeable to principal.<sup>2</sup>

All ordinary current expenses are charged to income. Shaw, C. J., says income means net income after deducting taxes, repairs, and ordinary current expenses.<sup>3</sup>

**Taxes.** — All annual taxes, except those assessed on vacant land, are charged to income.<sup>4</sup> As vacant land gives no return to the life tenant, but his whole income might be used in preserving the property of the remainderman,<sup>5</sup> all charges against it, including taxes, are chargeable to principal.<sup>6</sup>

Special assessments, such as betterment assessments, sewer taxes, etc., are chargeable to principal or are apportioned as specified.<sup>7</sup>

**Insurance.** — Insurance premiums are expressly chargeable to income by the terms of most carefully drawn trust instruments, and where no express provision is made in

<sup>1</sup> *Caldecott v. Brown*, 2 Hare, 144.

<sup>2</sup> *Parsons v. Winslow*, 16 Mass. 361; *N. Eng. Trust Co. v. Eaton*, 140 Mass. 532.

<sup>3</sup> *Watts v. Howard*, 7 Met. 478.

<sup>4</sup> *Plympton v. Dispensary*, 106 Mass. 544.

<sup>5</sup> *Stone v. Littlefield*, 151 Mass. 485; *Underhill*, p. 246 n.

<sup>6</sup> *Pierce v. Burroughs*, 58 N. H. 302; *Stone v. Littlefield*, 151 Mass. 485.

<sup>7</sup> *Plympton v. Dispensary*, 106 Mass. 544.

the instrument the general practice is to charge them to income.<sup>1</sup>

In case of a partial loss, the funds recovered would be used in repairing.<sup>2</sup> In case of a total loss, the fund should be invested,<sup>3</sup> and could be used in rebuilding if such an investment is authorized, and will retain its character as real estate, although it may be otherwise where the insurance existed at the time of the will, as in such case the policy was a personal asset at the outset.<sup>4</sup>

If the life tenant insures the property, the remainderman has no claim on the fund recovered, the contract of insurance being merely to indemnify the individual for his loss. The fund recovered does not represent or stand in the place of the building destroyed.<sup>5</sup> But where a trustee insures

<sup>1</sup> There is singularly little authority on the question. Probably because in early times and in England insurance was not considered a necessary precaution of an ordinarily cautious man, and because failure to insure by a life tenant is not permissive waste (*Harrison v. Pepper*, 166 Mass. 288), and unfortunately what authority there is is conflicting. In *Graham v. Roberts*, 8 Ired. Eq. 99, the court expresses the opinion, and in the New York case, *Re Housman*, 4 Dem. 404, the court decides, on the authority of *Peck v. Sherwood*, 56 N. Y. 615 (in which no reason is stated), that the premiums are apportionable according to the respective interests of the life tenant and remaindermen, and *Perry*, § 487, says that, there being no obligation to insure, the premium should not be charged to the life tenant without his consent. On the other hand, in *Darcy v. Croft*, 9 Ir. Ch. 19, in a carefully considered opinion, the cost of insuring the life of the annuitant was held chargeable to income, and this case seems to state the true reason, which is that the income is chargeable with all the ordinary annual expenses of maintaining the property, (see *Shaw, C. J.*, *Watts v. Howard*, 7 Met. 478, 482,) of which insurance is now like repairs and taxes, one of the ordinary and necessary incidents of maintaining real estate, and the ordinary practice of charging the premiums to income is entirely consonant with the theories of law, and with the law as now enacted by statute in England. *Trustees Act, 1893*, § 18.

<sup>2</sup> *Brough v. Higgins*, 2 Gratt. 408.

<sup>3</sup> *Lerow v. Wilmarth*, 9 Allen, 382.

<sup>4</sup> *Haxall's Ex'rs v. Shippen*, 10 Leigh, 536. In that case, the life tenant gave bond to invest money and pay over on death of life tenant, hence had no right to convert.

<sup>5</sup> *Harrison v. Pepper*, 166 Mass. 288.

the building, he will insure all his interest which is subject to the claim of both life tenant and remainderman, and in such case the fund recovered would stand in the place of the property destroyed as the property of the remainderman of which the life tenant has the use.<sup>1</sup>

**Expenses.**<sup>2</sup>—The charges of the trustees for managing the property, which are by the way of a commission on income, are charged to income. Extra charges for services which are beneficial to the fund, are charged to principal, or may be apportioned equitably.<sup>3</sup>

Brokers' commissions on change of investment are charged to income,<sup>4</sup> but in a purchase or sale of real estate the brokers' commission is in practice considered as part of the price of the property, and so is generally charged to principal, and would probably be allowed so generally.

Legal expenses of settling the interpretation of the trust instrument or appointment of new trustees are borne by the principal,<sup>5</sup> and so also the expenses of recovering the fund or paying it out. So also the legal expenses of protecting the property, but the legal expenses of collecting the income, or of determining the matter of payments chargeable to income, fall naturally to income.

**The Distribution of the Trust Fund.**—The trustee must distribute the trust fund properly at his peril, and if he distributes the wrong amount, or pays it to the wrong person, must bear the loss.

<sup>1</sup> *Graham v. Roberts*, 8 Ired. Eq. 99; *Haxall's Ex'rs v. Shippen*, 10 Leigh, 536; *Re Housman*, 4 Dem. 404.

<sup>2</sup> As to what expenses are allowed, see *supra*, p. 29.

<sup>3</sup> *Gordon v. West*, 8 N. H. 444. But see *Spangler's Estate*, 21 Pa. St. 335, where such charges were held to be the ordinary charges of protecting the property, and so charged to income. *Underhill*, p. 246, n.

<sup>4</sup> *Heard v. Eldredge*, 109 Mass. 258.

<sup>5</sup> *Howland v. Green*, 108 Mass. 283.

The fact that he has been diligent or has taken advice will not save him, and his only protection is to obtain a decree of distribution from the court. But he will be protected if, in paying one beneficiary whose share becomes due before the others, he pays him on a fair valuation of the estate, although the securities depreciate so that the others get less.<sup>1</sup>

Ordinarily the Probate Court is given authority to make decrees of distribution by statute, but where no statute exists a court of equity would act under its ordinary powers. He may pay the fund into court, and this by statute in some States.<sup>2</sup>

If the court had jurisdiction and proper notices be given, the trustee will be protected by the decree;<sup>3</sup> but care must be taken to make all parties interested parties to the suit, or they will not be concluded.

If there be any doubt as to whether all interested have been made parties, the trustee may require the payees to give security to reimburse against any claims that may arise.

On a decree of distribution, there being an overt act, the statute of limitations would run against a person within the jurisdiction, but not if he was outside or under a disability.

There is a common practice of making a final account showing a distribution of the fund, and asking the court to allow it, in the place of a decree of distribution; but it is better to get a decree, as some of the questions cannot be properly raised and concluded in the form of an account, as, for instance, if an improper share has been paid to a beneficiary it cannot be recovered back.<sup>4</sup>

<sup>1</sup> *Frere v. Winslow*, 45 Ch. Div. 249.

<sup>2</sup> Annot. Code Iowa (1897), § 370; Comp. Stat. Mont. (1887), § 235; Rev. Stat. Ohio (1890), § 5592; Stat. Okla. (1893), § 4149; Rev. Stat. Wyo. (1887), § 2940.

<sup>3</sup> Gen. Stat. Conn. (1888), § 445.

<sup>4</sup> *Hilliard v. Fulford*, 4 Ch. Div. 389.

The trustee must pay the distributive shares at his peril to the proper distributees. The fact that he pays on a forged order, or on a power of attorney which he supposes to be good, but which has in fact been revoked, will not protect him. Now, by statute in England, a trustee paying in good faith under a revoked order is protected,<sup>1</sup> but the law is not so in America.

He must not pay a minor's share to himself or his parent or guardian without an order of court,<sup>2</sup> or he may be required to pay him again when he comes of age.

He may perpetuate the evidence of his payments by an account filed in court, and allowed after notice to all interested, or under statutory law, by filing the vouchers in court.<sup>3</sup> The former course is preferable, as all parties to the suit are forever barred by the suit, and he cannot demand a receipt or discharge where he simply follows out the distribution according to the terms of the trust, and he cannot refuse to pay until he gets a receipt.<sup>4</sup>

If the trust was "to convey" or "divide" the real estate, a conveyance is necessary; otherwise, real estate will usually vest in the distributees by the provisions of the instrument.<sup>5</sup>

As these duties are so onerous, compensation is generally allowed, and is usually two and a half or one per cent on the amount turned over.<sup>6</sup>

In some jurisdictions the amount is regulated by statute.

The trustee may retain the funds in his hands until the account is settled and he has been paid his charges.<sup>7</sup>

<sup>1</sup> Underhill, p. 365.

<sup>2</sup> Perry, § 624. But see *Sparhawk v. Buell*, 9 Vt. 41.

<sup>3</sup> Mass. Pub. Stat. (1882), ch. 144, § 12.

<sup>4</sup> *Chadwick v. Heatley*, 2 Coll. 137. *Supra*, p. 77.

<sup>5</sup> *How v. Waldron*, 98 Mass. 281.

<sup>6</sup> *Supra*, p. 32.

<sup>7</sup> *Foster v. Bailey*, 157 Mass. 160.

## VI. LIABILITIES.

**To Strangers.** — A trustee is liable personally to a stranger on his contracts, whether he signs as trustee or as individual merely,<sup>1</sup> unless the contract is specially worded so that his liability shall not extend beyond the limits of the trust property. He is also liable on the covenants in a deed or lease, and on the recitals in a deed, if he should have special knowledge of their accuracy.<sup>2</sup>

He is not bound to give information to strangers with whom the beneficiary is negotiating a loan, and if he innocently makes an erroneous representation is not liable therefor.<sup>3</sup>

He is liable personally as stockholder in a corporation,<sup>4</sup> and for taxes.<sup>5</sup>

He will be liable personally where he assumes to be a trustee, when as a matter of fact, owing to defective appointment, he is not a trustee, and will have no right to indemnity from the trust property.

If he exceeds his powers, as for instance in selling or leasing to a stranger, and the stranger gets no title, he will be liable for the price, and also for damages, if any.

He is liable personally in tort as owner of the property on which there is a nuisance.<sup>6</sup>

In all these cases he has a right of indemnity from the trust fund only so far as he has acted strictly within his powers.

He is liable criminally for embezzlement if he misappropriates the trust funds, even though under the pretence of a loan to himself.<sup>7</sup>

<sup>1</sup> *Bowen v. Penny*, 76 Ga. 743. *Supra*, p. 65.

<sup>2</sup> *Lewin*, p. 211, n.; *Story v. Gape*, 2 Jur. (N. S.) 706. *Supra*, p. 84.

<sup>3</sup> *Low v. Bouvierie*, 3 Ch. 1891, 82.

<sup>4</sup> *Supra*, p. 24.

<sup>5</sup> *Supra*, p. 25.

<sup>6</sup> *Supra*, p. 26.

<sup>7</sup> Mass. Pub. Stat. (1882), ch. 203, § 46; Rev. Code N. Dak. (1895), § 7464; Rev. Stat. Ohio (1890), § 6842; Annot. Laws Oregon (1892), § 1800; Code Tenn. (1896), § 6592.

He cannot change himself from a trustee of the funds into a debtor without the consent of the beneficiary.

If a defaulting trustee is a lawyer, his breach of trust is a cause for disbarment.<sup>1</sup>

**Liability to Beneficiaries.** — The liabilities of trustees to their beneficiaries are joint and several, and a decree may be enforced against either, even if not the one actually at fault, and irrespective of liability among themselves;<sup>2</sup> but this joint liability ends with the trustee's death, and his estate is liable only for the acts during the trustee's lifetime.

Each transaction stands by itself, hence the gain on one cannot set off the loss on another. All the gains belong to the trust estate, and not to the trustee, hence they do not belong to him to set against his liabilities;<sup>3</sup> but in administering a fund as a whole, one transaction cannot be picked apart to show gains and losses, as, for instance, in developing real estate, the loss on a building built to make the rest more readily salable is part of the whole transaction, and not a separate loss.<sup>4</sup>

The trustee is liable to his beneficiary for any loss of the trust property arising from his neglect of duty. As, for instance, where the trust is created, and he neglects to collect or secure the property,<sup>5</sup> or inexcusably allows rents to fall in arrears.<sup>6</sup>

Thus, if he neglects to insure where it is his duty to do so, he will be liable for the loss,<sup>7</sup> or if he neglects to invest, he will be liable for interest.<sup>8</sup>

He is liable not only for a loss directly due to his neg-

<sup>1</sup> *Thompson v. Finch*, 8 DeG., M. & G. 560.

<sup>2</sup> *McCartin v. Traphagen*, 43 N. J. Eq. 323.

<sup>3</sup> *Wiles v. Gresham*, 2 Drew. 258; *Blake v. Pegram*, 109 Mass. 541.

<sup>4</sup> *Vyse v. Foster*, L. R. 7 H. L. 318.

<sup>5</sup> *Fenwick v. Greenwell*, 10 Beav. 412. *Supra*, p. 83.

<sup>6</sup> *Tebbs v. Carpenter*, 1 Mad. 291.

<sup>7</sup> As to his duty, see *supra*, p. 86, n. 3.

<sup>8</sup> See *supra*, p. 93; *White v. Ditson*, 140 Mass. 351.

lect, but also where it is only indirectly due to his neglect ; as, for instance, if he leaves the property improperly in the hands of his co-trustee or an agent, and it is misappropriated, destroyed, or stolen.<sup>1</sup> Though he will not be liable for the acts and crimes of strangers through which the property is lost, if he has done his duty in taking care of the property, as, for instance, where the property is properly deposited and then stolen,<sup>2</sup> yet if he has been remiss in his duty he will be liable for any loss that may occur in any manner ;<sup>3</sup> as, for instance, if he has mingled the trust money with his own funds in the bank, he will be liable for the loss by the failure of the bank ; while if the property were deposited in the names of the trustees, they would not be liable unless they were careless in selecting the depositary.

**Liability for Co-trustee.**—As a general rule he is liable for his own acts and neglects only, and is not liable for the act or default of his predecessor in the trust,<sup>4</sup> or of his co-trustee,<sup>5</sup> unless he joins in the breach of trust, or negligently permits it ;<sup>6</sup> but he can easily make himself so by giving a joint bond, which he need never do, each trustee having a right to give his separate bond,<sup>7</sup> or joining in a fraudulent account.<sup>8</sup> He will be liable where he has handed the funds to his co-trustee, allowed him to receive them, or looked on at a breach of trust ;<sup>9</sup> as, for instance, by join-

<sup>1</sup> *Bostock v. Floyer*, L. R. 1 Eq. 26. *Supra*, p. 87.

<sup>2</sup> *Jones v. Lewis*, 2 Ves. Sen. 240.

<sup>3</sup> Civ. Code Cal. (1885), § 2236 ; Comp. Laws Dak. (1887), § 3929.

<sup>4</sup> *Blake v. Pegram*, 109 Mass. 541. See *supra*, pp. 80, 82.

<sup>5</sup> *Stowe v. Bowen*, 99 Mass. 194 ; *Hinson v. Williamson*, 74 Ala. 180, 195 ; *Townley v. Sherburne*, 3 White & Tudor L. C. Eq., 6th Am. ed., Notes, 964.

<sup>6</sup> Comp. Laws Dak. (1887), § 3932 ; Civ. Code Cal. (1885), § 2239 *et seq.*

<sup>7</sup> *Ames v. Armstrong*, 106 Mass. 15.

<sup>8</sup> *Horton v. Brocklehurst*, 29 Beav. 504.

<sup>9</sup> *Wilkins v. Hogg*, 3 Giff. 116.

ing in a receipt for the money on a sale of securities and afterwards leaving the property with his co-trustee,<sup>1</sup> though in that case, if he can show affirmatively that there was a necessity to join in the receipt and leave the funds in the hands of the co-trustee afterwards, he will escape liability;<sup>2</sup> or by neglecting his duty and allowing his co-trustee to act improperly as his agent,<sup>3</sup> and to do alone what ought to have been done jointly; or by standing by and allowing his co-trustee to commit a breach of trust.<sup>4</sup>

So also the trustee will be liable if he puts or unjustifiably leaves the trust property in the exclusive control of his co-trustee and it is lost.<sup>5</sup> He may not rely on the representations of his co-trustee as to the status of the property, but must ascertain it himself.<sup>6</sup>

Thus, where property was left in trust to the widow and brother of the testator, for the benefit of the widow for life and then for others, and the widow managed the trust and the brother never did anything about it, and the widow wasted the property and died insolvent, the brother was held liable for the whole loss.<sup>7</sup> So, too, where the securities were deposited with a banker without inspection for four years, and one trustee was allowed to draw them out.<sup>8</sup> So, too, where the trustees improperly divide the management of the trust, each will be liable for the other, as for instance where each of two trustees took half the property and invested it in his respective business and

<sup>1</sup> It is to be noticed that the ordinary form of a deed, which all the trustees must sign, contains a receipt for the consideration.

<sup>2</sup> *Monell v. Monell*, 5 Johns. Ch. 283.

<sup>3</sup> Dak. Civ. Code (1887), § 3932; Cal. Civ. Code (1885), § 2239; *Oliver v. Court*, 8 Price, 127, 166. *Supra*, p. 75, as to collection of income.

<sup>4</sup> *Crane v. Hearn*, 26 N. J. Eq. 378. See *supra*, p. 87, for distinction between leaving income and principal in the hands of one trustee.

<sup>5</sup> *Supra*, pp. 88, 89.

<sup>6</sup> *Bates v. Underhill*, 3 Redf. (N. Y.) 365.

<sup>7</sup> *Clark v. Clark*, 8 Paige, 153.

<sup>8</sup> *Supra*, p. 89.

paid interest on it, and then one failed, the other was held to make up the loss.<sup>1</sup> So, too, if he joins in a fraudulent or unfair account,<sup>2</sup> or in a receipt for money which is afterwards misapplied.

A provision in the trust instrument that one trustee shall not be liable for the acts or defaults of the other does not relieve him of liability in such cases, as he is made liable, not because the other is at fault, but because he neglects his own duties, and so gives the co-trustee the opportunity to waste the estate; but the clause may be drawn so as to exempt him,<sup>3</sup> and he will not be liable if the loss occurred by following out the directions of the trust instrument, as for instance in leaving money in the hands of A, where the instrument says he may do so.<sup>4</sup>

A trustee, who has made good a loss occasioned by a breach of trust not amounting to a fraud, is entitled to contribution from his co-trustees; but where there has been a joint fraud the court will not help him against his partner in wrong.<sup>5</sup>

A trustee who has been guilty of no fraud himself, but who has been deceived by his co-trustees<sup>6</sup> as to the state of the funds, or who has made good a loss caused by his co-trustee's fraud, has a right not only to contribution but to full indemnity from his co-trustee, who has had the benefit of the misappropriation.<sup>7</sup> Or he may recover indemnity of the beneficiary who has received the benefit of a breach of trust induced by him.<sup>8</sup>

<sup>1</sup> *Graham v. Austin*, 2 *Gratt.* 273.

<sup>2</sup> *Blake v. Pegram*, 109 *Mass.* 541.

<sup>3</sup> *Wilkins v. Hogg*, 3 *Giff.* 116; *White & Tudor L. C. Eq.*, 6th Am. ed., note to *Brice v. Stockes*, 1029, 1030.

<sup>4</sup> *Kilbee v. Sneyd*, 2 *Moll.* 186, 200; *Pass v. Dundas*, 29 *W. R.* 332.

<sup>5</sup> *Underhill*, p. 479.

<sup>6</sup> *Thompson v. Finch*, 8 *DeG.*, M. & G. 560.

<sup>7</sup> *Bahin v. Hughes*, 31 *Ch. Div.* 390; *McCartin v. Traphagen*, 43 *N. J. Eq.* 323; *Sherman v. Parish*, 53 *N. Y.* 483.

<sup>8</sup> *Raby v. Ridehalgh*, 7 *DeG.*, M. & G. 104; *Griffith v. Hughes*, 3 *Ch.* (1892), 105; and under statutes even from a married woman without power of anticipation.

**Liability for Errors.** — The trustee is liable for any loss caused by his exceeding his powers ; as, for instance, if he convert the trust property without having the power, he may be compelled to replace it in kind or make good its increase in value.<sup>1</sup>

Or where he invests in securities in which he has no power to invest, even though honestly, he will be liable ; as, for instance, where the trustee was authorized to invest in real security, and held railroad bonds believing them to be authorized, he was held liable.<sup>2</sup>

So, too, he is liable if he pays the wrong person,<sup>3</sup> as e. g. where he paid a sum due an infant to his father, without order of court, the infant could demand the sum on coming of age.<sup>4</sup> Or where a beneficiary has encumbered his estate, and there is notice among the papers. Or, where, under a misapprehension, he has paid sums which should be principal to the life tenant, or *vice versa*.

The trustee is liable for his errors in judgment (unless expressly exempted) in the performance of his duties, but not in the exercise of his discretionary powers.<sup>5</sup>

The trustee is held to perform his duties with reasonable discretion,<sup>6</sup> that is to say, with the same intelligence that a reasonable man would use in the transaction of his own affairs ; the fact that he is incompetent is no excuse. He must be at the pains to learn his duties.<sup>7</sup> For instance, it being the duty of the trustee to invest the trust

<sup>1</sup> *Infra*, p. 142.

<sup>2</sup> *Robinson v. Robinson*, 11 Beav. 371.

<sup>3</sup> See *Underhill*, p. 290 ; see as to distribution, *supra*, p. 117.

<sup>4</sup> *Dagley v. Tolferry*, 1 P. Wms. 285 ; *Simpson on Infants*, p. 180, 2d Eng. ed.

<sup>5</sup> *Supra*, p. 51 ; Civ. Code Cal. (1885), § 2238 ; Comp. Laws Dak. (1887), § 3931 ; Rev. Code N. Dak. (1895), § 4274.

<sup>6</sup> "Ordinary care and diligence." Comp. Laws Dak. (1887), § 3941 ; Code Ga. (1895), § 3170 ; Cal. Civ. Code (1885), §§ 2258, 2259.

<sup>7</sup> *Hun v. Cary*, 82 N. Y. 65.

funds, if he invests too large a proportion in certain securities, or if he uses poor judgment in investing, he will be liable for the loss, irrespective of his honesty. But he is not supposed to be infallible, and where he has acted with that amount of discretion which an ordinarily prudent man uses in his own affairs,<sup>1</sup> and honestly, he will be protected; and even where he has acted in good faith only the court will treat him leniently, and give him the benefit of the doubt,<sup>2</sup> especially if he is acting under advice of counsel,<sup>3</sup> since this fact shows that he used due diligence, though it is not in itself an excuse.<sup>4</sup>

This liability may be restricted by the terms of the trust instrument; and a clause making a trustee liable for his wilful and intentional breaches of trust only is a common provision in trust instruments, and will be given effect by the courts.<sup>5</sup> But this clause does not excuse a trustee who knowingly or carelessly hazards the trust funds, and fails in his duty where reasonable inquiry would have made him safe.<sup>6</sup>

He cannot set off the gain on another investment against the loss on any injudicious investment, since all gains belong to the trust fund, and the loss on an improper investment is a personal liability, and the fact that the trust fund has largely profited by the good management of the trustee does not affect his liability to make good any error of judgment.<sup>7</sup>

But if he have a discretionary power to do any act, the court will not inquire whether he has used good judgment or not, provided he has been honest in its exercise; as, for instance, if he have a power of sale, the court will not

<sup>1</sup> *In re Cousins's Estate*, 111 Cal. 441.

<sup>2</sup> *Crabb v. Young*, 92 N. Y. 56.

<sup>3</sup> *Perrine v. Vreeland*, 33 N. J. Eq. 102.

<sup>4</sup> *Stott v. Milne*, 25 Ch. D. 710.

<sup>5</sup> *Wilkins v. Hogg*, 8 Jur. (N. S.) 25.

<sup>6</sup> *Tuttle v. Gilmore*, 36 N. J. Eq. 617.

<sup>7</sup> *Supra*, p. 121; *Wiles v. Gresham*, 2 Drew. 258.

inquire into the price unless it be so grossly inadequate as to suggest a fraud, or where he has a power to support, the discretion of the trustee, honestly exercised, as to the amount of support, will be final.<sup>1</sup>

**Measure of Damages.** — A trustee who has caused loss to his trust must make the fund good, and will be charged with interest if any would have been earned.

Interest is simple in most cases,<sup>2</sup> but compound interest is allowed if the trust was for accumulation, or if the funds have been used in trade, as that amount will be supposed to be realized, or as a punishment for disobeying the order of the court, or wilful misconduct in the management of the trust.<sup>3</sup>

If the trustee fails to perform a specified duty, as, for instance, to invest in specified stock, the beneficiary may elect to have the money and interest, or an equivalent amount of stock and the dividends declared in the meanwhile.<sup>4</sup>

Similarly, if he exceeds his powers in selling real estate or stocks, he may be required to replace them by like real estate or stocks ; and if he sell trust stock and have shares in the same company in his own estate, they can be held by the beneficiary as against his assignee in insolvency.<sup>5</sup>

Where a trustee had sold the trust property and appropriated the proceeds to his own use, but rendered accounts as though he still held the securities, he was charged with the market value of the securities at the date of the event, and the amount of dividends payable up to that time, but with an allowance for taxes and commissions, since the settlement was on the theory that the account was made

<sup>1</sup> *Supra*, p. 67.

<sup>2</sup> *McKim v. Blake*, 139 Mass. 593.

<sup>3</sup> *Ames*, 498, n.; *McKim v. Hibbard*, 142 Mass. 422; *Jennison v. Hapgood*, 10 Pick. 77. *Supra*, p. 93.

<sup>4</sup> *Perry*, § 844; *Freeman v. Cook*, 6 Ired. Eq. 373; *Lewin*, p. 370. *Infra*, p. 142.

<sup>5</sup> *Draper v. Stone*, 71 Me. 175.

up as though the trust had been properly administered.<sup>1</sup> Had the stock fallen in value, the beneficiary might have claimed the price at which it actually sold and interest.<sup>2</sup> In the absence of evidence of the actual price received, the trustee is chargeable with at least the inventory value.<sup>3</sup>

If a trustee buys the trust property at a sale, he must make good any loss in price incurred at reselling.<sup>4</sup> Or if he sell to a *bona fide* purchaser before the sale is disaffirmed, he must account for any profit.<sup>5</sup> And if the property has depreciated in value, he must make up the difference of the value at the time of purchase, with interest.

If he purchased the property himself, at an inadequate price, the court may confirm the sale, requiring him to pay the difference to make the full market value.<sup>6</sup>

If, however, the trustee, supposing that he has acquired a good title, has laid out money in good faith, and improved the estate, he will be allowed for it.<sup>7</sup>

**Liability Terminated.** — The liability of the trustee may be ended by his passing through insolvency,<sup>8</sup> or getting a release<sup>9</sup> settling his accounts,<sup>10</sup> or by the statute of limitations.<sup>10</sup>

If his successor in the trust takes over the property without objection at its inventory valuation, and retains it for a considerable time unconverted, he cannot subsequently charge his predecessor with any loss.<sup>11</sup> If, however, the

<sup>1</sup> *McKim v. Hibbard*, 142 Mass. 422.

<sup>2</sup> *Ibid.*, 427.

<sup>3</sup> *Ibid.*, 425.

<sup>4</sup> *Davoue v. Fanning*, 2 Johns. Ch. (N. Y.) 252.

<sup>5</sup> *Clark v. Blackington*, 110 Mass. 369.

<sup>6</sup> *Morse v. Hill*, 136 Mass. 60.

<sup>7</sup> *Ibid.* Also *Davoue v. Fanning*, *ubi supra*.

<sup>8</sup> *Thompson v. Finch*, 8 DeG., M. & G. 560.

<sup>9</sup> *Infra*, p. 147.

<sup>10</sup> *Supra*, p. 118; *infra*, p. 149.

<sup>11</sup> *Thayer v. Kinsey*, 162 Mass. 232.

successor seasonably converts the property, he may claim the loss, or he can object to taking the property at more than its real value.<sup>1</sup>

He is not liable for the doings in the trust subsequent to his death, but an action against him for a breach of trust survives in equity.<sup>2</sup>

<sup>1</sup> *In re Salmon*, 42 Ch. Div. 351; *Thayer v. Kinsey*, 162 Mass. 232.

<sup>2</sup> *Dodd v. Wilkinson*, 41 N. J. Eq. 566.

## PART III.

### THE BENEFICIARY.

**I. Who may be a Beneficiary.** — Almost any person may be a beneficiary, but a person who could not legally hold property within the jurisdiction cannot be entitled as a beneficiary. As, for instance, a slave,<sup>1</sup> an alien enemy or a corporation<sup>2</sup> that could not hold property in its own name in the jurisdiction, could not hold it through the instrumentality of a trustee.<sup>3</sup>

Parrots, horses, and dogs, and in former times slaves, might be the objects of trusts, but they could not be true beneficiaries, as they are not "persons," and therefore cannot appear in court to enforce the trust. Bequests to unspecified charities stand on another footing, since the Attorney General will appear to enforce them.

Trusts for "things," such as pets, etc., if properly drawn, will not be interfered with by the court, but the carrying of them out must depend on the honor of the trustee. That is to say, the gift may be to a trustee to expend so much as he thinks fit in maintaining certain horses and dogs, the residue to go to the trustee. A further clause might be added, that, if the trustee failed to support the animals properly, the property should go to the next of kin. So,

<sup>1</sup> *Pool v. Harrison*, 18 Ala. 514.

<sup>2</sup> *Coleman v. Railroad Co.*, 49 Cal. 517.

<sup>3</sup> For statutes against aliens holding land in sundry States, see Underhill, p. 95, n.

too, the direction to employ a particular person as an attorney or agent by a testator does not create a trust or make the person designated a beneficiary.<sup>1</sup>

**Who is the Beneficiary?** — Any person who has a claim against the trustee for any of the benefit of the trust property is a beneficiary.

The claim need not be vested, a contingent interest being such a claim.<sup>2</sup>

Persons to whom income is payable at the discretion of the trustee are not beneficiaries under the above definition, since they have no claim they can enforce or assign, although they are interested in the trust and may intervene to have a proper trustee.<sup>3</sup>

In the absence of statute ordering the appointment of a guardian *ad litem*, persons not ascertained or not in being are not parties interested.<sup>4</sup>

Persons having a mere possibility, or a person to whom a beneficiary has given an order on the trustee, are not beneficiaries, although they have property that may be assigned.<sup>5</sup> Nor is the holder of a general power of appointment a beneficiary, although if he exercise the power his creditors will take the estate.

The claim of the beneficiary is not to any part of the property itself, either in law or equity; hence he cannot sue to recover, and protect the fund or recover damages for an injury to it.<sup>6</sup> All the property rights are in the trustee, and the claim is against the trustee only.<sup>7</sup>

<sup>1</sup> *Foster v. Elsley*, 19 Ch. Div. 518.

<sup>2</sup> *Clarke v. Deveaux*, 1 S. C. 172.

<sup>3</sup> *Wilson v. Wilson*, 145 Mass. 490. *Supra*, pp. 8 and 66; *infra*, p. 135.

<sup>4</sup> *Bradstreet v. Butterfield*, 129 Mass. 339; *Hartman's Appeal*, 90 Pa. St. 203; *Dexter v. Cotting*, 149 Mass. 92.

<sup>5</sup> *Hawley v. Ross*, 7 Paige, 103.

<sup>6</sup> *Western Railroad Co. v. Nolan*, 48 N. Y. 513. Statutes in Code States and several others.

<sup>7</sup> *Supra*, p. 22.

**II. Estate of the Beneficiary.**—The estate of the beneficiary may be described as his right to force the trustee to carry out the terms of the trust. As courts of equity recognize the beneficiary's absolute right in this respect, they regard him as the true owner of the property, and have invested his equitable estate with many of the same incidents and qualities pertaining to legal ownership in a court of law.<sup>1</sup>

As has been hereinbefore pointed out,<sup>2</sup> the beneficiary is not clothed with the privileges and burdens incidental to the ownership of the property, which are attributes of the legal estate and consequently belong to the trustee; but his equitable estate is property, and he may treat it in general much as the legal owner of property may treat his, although it is not such an ownership of things as would, for instance, qualify a voter where a property qualification is required.<sup>3</sup>

**Incidents of the Equitable Estate.**—The estate of the beneficiaries is not joint, even though there be several beneficiaries entitled to equal and similar interests in the trust.<sup>4</sup> Each beneficiary may act independently of the others, and a majority has no greater rights than a minority, or than even an individual.

Where, however, there has been a breach of trust in the sale of trust property, and the beneficiaries do not agree in desiring a reconveyance, if their interests cannot be separated the court will proceed in the best interests of all the beneficiaries and order an avoidance for all, or damages for all, as it thinks best.<sup>5</sup>

Or where an account is corrected at the instance of one, all will be entitled to participate in the benefit of the correction.<sup>6</sup>

<sup>1</sup> Freedman's Co. *v.* Earle, 110 U. S. 710.

<sup>2</sup> *Supra*, p. 23; and see Lewin, p. 640.

<sup>3</sup> Lewin, p. 247; *Burgess v. Wheate*, 1 *Eden*, 177, 251.

<sup>4</sup> Underhill, p. 463.

<sup>5</sup> *Morse v. Hill*, 136 Mass. 60.

<sup>6</sup> *Little v. Little*, 161 Mass. 189.

The equitable estate may descend or be devised, and is now usually liable to the incidents of courtesy and dower.<sup>1</sup>

That courtesy may attach, the estate must be in possession, when it will attach although limited to the wife's heirs.<sup>2</sup>

In early times dower was not an incident of a trust estate,<sup>3</sup> but now, by statute, it usually is,<sup>4</sup> although there are some jurisdictions where there is no dower, as Massachusetts and Maine, but the wife is compensated in other ways.<sup>5</sup>

Beneficial estates in lands have been held not liable to forfeiture or escheat,<sup>6</sup> but under the statutes in the United States on failure of heirs the trust property, whether real or personal, would pass to the State.<sup>7</sup>

The beneficial estate is subject to disseisin where a trustee repudiates the trust, and claims the property so that the statute of limitations begins to run.<sup>8</sup>

**Alienation.** — In the absence of restraint by the terms of the settlement or statute, the beneficial estate may be alienated as freely as any other property.<sup>9</sup>

The beneficiary may convey it away and it will pass to his assignee under a general assignment.<sup>10</sup> He may dis-

<sup>1</sup> Annot. Code Miss. (1892), § 1546; Laws of Del. (1893), ch. 85, § 1; Rev. Stat. N. Y. (1896), p. 1827, § 21; Bartlett *v.* Bartlett, 137 Mass. 156; Perry, § 323.

<sup>2</sup> Tillinghast *v.* Coggeshall, 7 R. I. 383.

<sup>3</sup> Reed *v.* Whitney, 7 Gray, 533.

<sup>4</sup> See Stimpson, § 3202.

<sup>5</sup> Hamlin *v.* Hamlin, 19 Me. 141; Reed *v.* Whitney, 7 Gray, 533.

<sup>6</sup> Burgess *v.* Wheate, 1 W. Bl. 123.

<sup>7</sup> Perry, §§ 327, 436.

<sup>8</sup> *Infra*, p. 149.

<sup>9</sup> In Ga. Code (1895), § 3188, may sell to any person except husband and trustee. In Pennsylvania and South Carolina a married woman can convey only in the manner provided in the settlement. Quin's Estate, 144 Pa. 444; Dunn *v.* Dunn, 1 So. Car. 350; Gray, Restraints on Alienation, 2d edit., § 275 b.

<sup>10</sup> Forbes *v.* Lothrop, 137 Mass. 523.

pose of it by will, and it may be taken by his creditors for his debts, the manner in which it is reached varying according to local law;<sup>1</sup> but there is some way of reaching it everywhere.

**Alienation, What Estate passes.** — The beneficiary, unlike the owner, has no property to alien. All he has are his rights, or, as they are called, his equity.

This equity or claim against the trustee is subject to all the counter claims of the trustees.

Thus, if the beneficiary was indebted to the trustee, his equity will pass to his transferee subject to the trustee's counter claim, but not if it be *in autre droit*.<sup>2</sup> Or if the beneficiary, being also a defaulting trustee, assigns, his assignee will take subject to making good the default.<sup>3</sup>

It follows from the nature of the estate, being a claim instead of property, that the assignor can only transfer what rights he has, and the assignees accordingly take in the order of their assignments, and a purchaser for value gets no better title than a volunteer.<sup>4</sup> If however a later assignee acting in good faith fortifies his equity by a legal right, such as payment of the claim,<sup>5</sup> a judgment,<sup>6</sup> or a new obligation from the trustee to him direct, he may hold the property both in law and equity.<sup>7</sup>

In all jurisdictions the assignment of an equity in real estate is complete when assignor and assignee have

<sup>1</sup> Gray, *Restraints on Alienation*, 2d edit., §§ 170-174. On execution, *Hadden v. Spader*, 20 Johns. 554. By creditor's bill for equitable execution, *Drake v. Rice*, 130 Mass. 410; *Chase v. Searls*, 45 N. H. 511.

<sup>2</sup> *Infra*, p. 154. As for instance where the counter claim is individual. *Abbott v. Foote*, 146 Mass. 333; *Dodd v. Winship*, 133 Mass. 359.

<sup>3</sup> *Belknap v. Belknap*, 5 Allen, 468.

<sup>4</sup> *Philips v. Philips*, 4 DeG., F. & J. 208.

<sup>5</sup> *N. Y. Co. v. Schuyler*, 34 N. Y. 30; *Bridge v. Conn. Life Ins. Co.*, 152 Mass. 343.

<sup>6</sup> *Judson v. Corcoran*, 17 How. 612.

<sup>7</sup> *Ames*, 328.

assented ;<sup>1</sup> and the same rule is true of personal property in Massachusetts, New York, Minnesota, Indiana, and West Virginia,<sup>2</sup> but in other jurisdictions notice to the trustee is necessary to complete the assignment of an equity in personal property.<sup>3</sup>

Notice to be good must be given to the trustee after his appointment,<sup>4</sup> and notice to one of several trustees or other joint obligors is notice to all.<sup>5</sup>

Knowledge is notice, if obtained in such a manner as would affect a reasonable man ; but if the assignor is the trustee his knowledge is not notice, but if he be assignee knowledge is notice.<sup>6</sup>

Accordingly, in those jurisdictions where notice is necessary to complete the transaction, the person giving notice first will have priority ; but if the person giving the notice was aware of the previous assignment, his notice will not help him.

A person who has a general power of appointment and exercises it,<sup>7</sup> makes the property assets of his estate for creditors, since he should have appointed to them instead of to volunteers. If the power of appointment be special, the creditors could not take unless the settlor and the donee of the power were the same,<sup>8</sup> in which case *quare?*<sup>9</sup> But a person to whom income is payable at the pleasure of the trustee has no estate that can be assigned or taken

<sup>1</sup> Lee *v.* Howlett, 2 Kay & J. 531.

<sup>2</sup> Thayer *v.* Daniels, 113 Mass. 129 ; White *v.* Wiley, 14 Ind. 496 ; McDonald *v.* Kneeland, 5 Minn. 352 ; Clarke *v.* Hogeman, 13 W. Va. 718 ; Fairbanks *v.* Sargent, 104 N. Y. 108.

<sup>3</sup> Foster *v.* Cockrell, 3 Cl. & Fin. 456 ; Wallston *v.* Braswell, 1 Jones Eq. 137 ; Copeland *v.* Manton, 22 Ohio St. 398.

<sup>4</sup> Roxburghe *v.* Cox, 17 Ch. D. 520, 527.

<sup>5</sup> Perry, § 438, end.

<sup>6</sup> Ames, 328, n. ; Lloyd *v.* Banks, 3 Ch. 488.

<sup>7</sup> Clapp *v.* Ingraham, 126 Mass. 200. *Supra*, p. 20.

<sup>8</sup> Bailey *v.* Lloyd, 5 Russ. 330 ; Cowx *v.* Foster, 1 Johns. & Hem. 30.

<sup>9</sup> The policy of the law is well set forth by Morton, C. J., in Pacific Bank *v.* Windram, 133 Mass. 175-177. There is a lack of direct decisions.

for his debts, as his assignees or creditors must take through him and he has no rights that he can enforce.<sup>1</sup> In some States the creditors have lien by statute even where the power is not exercised.

**Restraint on Alienation.**—One of the ordinary motives for giving property in trust, instead of giving it outright, is the desire of donors to secure to the beneficiaries the enjoyment of its benefits irrespective of their improvidence or extravagance.

In such cases it is usual to insert a provision in the trust instrument that the beneficiary shall not take his income by way of anticipation, and that it and the principal shall not be assigned, or be liable to be taken for his debts.<sup>2</sup>

As a general rule in America, such a restraint on the alienation of the income is valid, but is invalid as regards the principal fund,<sup>3</sup> while in England and in other States (there being several where the question is not determined) such a restriction is inoperative except in the case of a beneficiary who is a married woman,<sup>4</sup> who is excepted everywhere except in Massachusetts and Pennsylvania, where she cannot settle property on herself without power of alienation during coverture.<sup>5</sup>

This restraint in the case of a married woman cannot be removed by any one, not even by the court,<sup>6</sup> and cannot be set aside to relieve against her fraud or breach of trust,<sup>7</sup> nor will acquiescence by the married woman excuse a trustee for disregarding it.<sup>8</sup>

<sup>1</sup> *Infra*, p. 138.

<sup>2</sup> See *supra*, p. 66. The decisions on this subject, and the policy involved, are thoroughly discussed in *Restraints on the Alienation of Property*, by John Chipman Gray, LL.D., 2d ed., 1895.

<sup>3</sup> Gray, *Restraints on Alienation*, 2d ed., § 167 *j.*

<sup>4</sup> *Ibid.*, §§ 134–213, 268, 268 *b.*

<sup>5</sup> *Ibid.*, §§ 269–277 *a.* See note to *Underhill*, p. 377; *Pacific Bank v. Windram*, 133 Mass. 175; *Jackson v. Von Zedlitz*, 136 Mass. 342.

<sup>6</sup> *Robinson v. Wheelwright*, 21 *Beav.* 214.

<sup>7</sup> *Stanley v. Stanley*, 7 *Ch. D.* 589.

<sup>8</sup> Gray, *Restraints on Alienation*, 2d ed., § 271; *Fletcher v. Greene*, 33 *Beav.* 426.

In most States the restraint on alienation can be made only by the terms of the trust instrument. There are some States,<sup>1</sup> notably those having codes, where such restraint is provided for by statute.

In Pennsylvania,<sup>2</sup> Massachusetts,<sup>3</sup> Illinois,<sup>4</sup> Maine,<sup>5</sup> Maryland,<sup>6</sup> Mississippi,<sup>7</sup> Missouri,<sup>8</sup> and probably Tennessee,<sup>9</sup> Delaware,<sup>10</sup> Indiana,<sup>11</sup> and Virginia,<sup>12</sup> and in the Federal courts<sup>13</sup> and Vermont,<sup>14</sup> the settlor may settle the life estate without power of alienation on any one but himself as beneficiary, and it cannot be taken for his debts.<sup>15</sup> Such restraints are adjudged bad<sup>16</sup> in Rhode Island,<sup>17</sup> New York (aside from statute<sup>18</sup>), North Carolina,<sup>19</sup> South Carolina,<sup>20</sup> Georgia,<sup>21</sup> Alabama,<sup>22</sup> Ohio,<sup>23</sup> Kentucky,<sup>24</sup> and

<sup>1</sup> Civ. Code California (1885), § 867; Comp. Laws Dakota (1887), § 2808.

<sup>2</sup> Overman's Appeal, 88 Pa. 276.

<sup>3</sup> Broadway Bank *v.* Adams, 133 Mass. 170.

<sup>4</sup> Steib *v.* Whitehead, 111 Ill. 247.

<sup>5</sup> Roberts *v.* Stevens, 84 Me. 325.

<sup>6</sup> Smith *v.* Towers, 69 Md. 77.

<sup>7</sup> Leigh *v.* Harrison, 69 Miss. 923.

<sup>8</sup> Lampert *v.* Haydel, 20 Mo. App. 616.

<sup>9</sup> Tenn. Code (1896), §§ 6091-6093; Jourolman *v.* Massengill, 86 Tenn. 81.

<sup>10</sup> Gray *v.* Corbit, 4 Del. Ch. 135.

<sup>11</sup> Thompson *v.* Murphy, 37 N. E. Rep. 1094.

<sup>12</sup> Garland *v.* Garland, 87 Va. 758.

<sup>13</sup> Nichols *v.* Eaton, 91 U. S. 716.

<sup>14</sup> Barnes *v.* Dow, 59 Vt. 530.

<sup>15</sup> Gray, Restraints on Alienation, 2d ed., §§ 177 *a*, 240 *h* to 249 *b*; also p. 281.

<sup>16</sup> Gray, Restraints on Alienation, 2d ed., § 178.

<sup>17</sup> Tillinghast *v.* Bradford, 5 R. I. 205.

<sup>18</sup> Rome Exch. Bk. *v.* Eames, 4 Abb. Ct. App. 83, but changed by statute. See note 4, p. 138 *infra*.

<sup>19</sup> Pace *v.* Pace, 73 N. C. 119.

<sup>20</sup> Heath *v.* Bishop, 4 Rich. Eq. 46.

<sup>21</sup> Bailie *v.* McWhorter, 56 Ga. 183.

<sup>22</sup> Robertson *v.* Johnston, 36 Ala. 197.

<sup>23</sup> Hobbs *v.* Smith, 15 Ohio St. 419.

<sup>24</sup> Knefler *v.* Shreve, 78 Ky. 297.

probably in Arkansas;<sup>1</sup> in Connecticut the dicta are conflicting, and there are no decisions.<sup>2</sup>

Under the statutory provisions of New York,<sup>3</sup> New Jersey, Indiana, Michigan, Wisconsin, Minnesota, Kansas, California, and North and South Dakota, the beneficiary may be restrained from alienating the rents and profits, but not the gross sum.<sup>4</sup>

In Arizona<sup>5</sup> he may settle on his children without power of alienation, and in North Carolina<sup>6</sup> it may be so settled on a relative, if at the creation of the trust his debts do not exceed five hundred dollars.

Although there are jurisdictions, as appears above, where a restraint on alienation cannot be successfully attached to a settlement where the gift is absolute to the beneficiary, yet the same result is practically reached by what is commonly known as a spendthrift trust; that is to say, by leaving it to the pleasure of the trustees whether they will pay the income to the beneficiary, use a part of it for his support, or accumulate so much as they think fit. In such a case, the creditors of the beneficiary cannot take the income, because the beneficiary has no right to any specific income which he can enforce,<sup>7</sup> and therefore nothing that he can alien, or that can be taken for his debts; but in such cases, if the beneficiary is also trustee, the estate vests in him absolutely, and no spendthrift trust is established.<sup>8</sup> But in England, and in those States

<sup>1</sup> *Lindsay v. Harrison*, 8 Ark. 302.

<sup>2</sup> *Gray*, Restraints on Alienation, 2d ed., § 195.

<sup>3</sup> *Cochrane v. Schell*, 140 N. Y. 516.

<sup>4</sup> Rev. Stat. N. Y. (1896), p. 1798, § 63; N. J. Pub. Laws (1880), p. 274; Annot. Stat. Mich. (1882), § 5581; Stat. Minn. (1894), § 4292; Rev. Code N. D. (1895), § 3398; Gen. Stat. Kan. (1897), ch. 113, § 4; Civ. Code Cal. (1885), §§ 857, 859, 867; Comp. Laws Dak. (1887), §§ 2798, 2800, 2808; Annot. Stat. Wisc. (1889), § 2089; Rev. Stat. Ind. (1894), § 3394; *Gray*, § 296.

<sup>5</sup> Rev. Stat. Ariz. (1887), § 3252.

<sup>6</sup> N. C. Code (1883), § 1335.

<sup>7</sup> *In re Bullock*; *Good v. Lickorish*, 60 L. J. Ch. 341.

<sup>8</sup> *Hahn v. Hutchinson*, 159 Pa. St. 133.

following the English rule, the trustee must account to the creditor for any income which he pays to or expends for the beneficiary after notice of his assignment,<sup>1</sup> although if he pays or expends it for others the creditor has no claim. If, however, the provision be to pay all the income to him or apply it all to his support, he has an absolute right which he can alien or which can be taken.

If the provision be to pay him or support his family, in most jurisdictions none of the income can be taken, but in others, notably where the matter is regulated by statute, so much as is left after reasonable support may be taken or alienated,<sup>2</sup> and this amount is sometimes fixed by the statute; but the statutes only protect the creditor, and give no power of voluntary alienation to the beneficiary.<sup>3</sup>

The settlor may attach a condition to the gift of income, that if it be alienated, or if the beneficiary become bankrupt, the income shall pass to others,<sup>4</sup> and this condition will be valid in any case, even though the person to whom the income passes is the wife of the original beneficiary,<sup>5</sup> except only where the income is settled on the settlor himself;<sup>6</sup> but this exception does not apply to a married woman under coverture,<sup>7</sup> except in Pennsylvania and Massachusetts, where married women have the same status as other individuals.<sup>8</sup>

A similar condition attached to a gift of the principal

<sup>1</sup> Gray, *Restraints on Alienation*, 2d ed., § 167 *g*; *Re Coleman*, 39 Ch. D. 443.

<sup>2</sup> For the statutes, see *Stimpson, Statute Law*, p. 237; Gray, *Restraints on Alienation*, 2d ed., § 296. *Supra*, p. 138, note 4.

<sup>3</sup> Gray, *Restraints on Alienation*, 2d ed., § 292; Ames, 401, n.; *Tolles v. Wood*, 99 N. Y. 616; but in Illinois the statute curiously cuts out the creditor, and allows the beneficiary to alienate; *Potter v. Couch*, 141 U. S. 296.

<sup>4</sup> *Re Levy's Trust*, 30 Ch. D. 119; *Nichols v. Eaton*, 91 U. S. 716.

<sup>5</sup> *Samuel v. Samuel*, 12 Ch. D. 152; Gray, *Restraints on Alienation*, 2d ed., § 46.

<sup>6</sup> *Jackson v. Von Zedlitz*, 136 Mass. 342.

<sup>7</sup> *Clive v. Carew*, 1 Johns. & Hem. 199.

<sup>8</sup> See *supra*, p. 136.

of the fund is valid so long as the estate remains contingent, but if the estate vests, then the gift over becomes void.<sup>1</sup>

A provision attached to a gift that so much as shall not be used or alienated shall go to another is void.<sup>2</sup>

A limitation of the income to the sole and separate use of a married woman, is not a restraint on alienation.<sup>3</sup>

**III. Rights against Trustee.**—As the whole estate of the beneficiary consists of his right to compel the trustee to carry out the trust, he is considered to be peculiarly under the care of the court.

**Where Enforced.**—The beneficiary may have a subpœna against the trustee wherever he can find him,<sup>4</sup> irrespective of the situation of the trust property,<sup>5</sup> unless the trust be created by the decree of a court of another State, in which case the trustee can only be sued there, unless ancillary trusteeship be also taken out in the jurisdiction where suit is brought.<sup>6</sup> And where the trust is established by the decree of a court of one State, the courts of that State have jurisdiction to regulate the trust, although both the trustee and beneficiary are out of the jurisdiction, since they can remove the trustee and appoint one to act in his place.<sup>7</sup> So also, if the trustee is not within the jurisdiction, but the trust property is within the jurisdiction of the court, and there is a statute vesting the property in a trustee appointed by the court,<sup>8</sup> then the

<sup>1</sup> *Mandlebaum v. McDonell*, 29 Mich. 78.

<sup>2</sup> *Foster v. Smith*, 156 Mass. 379; *Fisher v. Wister*, 154 Pa. St. 65; *Gray*, Restraints on Alienation, 2d ed., §§ 57-74.

<sup>3</sup> *Forbes v. Lothrop*, 137 Mass. 523.

<sup>4</sup> *Brown v. Desmond*, 100 Mass. 267; *Kildare v. Eustace*, 1 Vernon, 405; *Cooley v. Scarlett*, 38 Ill. 316.

<sup>5</sup> *Massie v. Watts*, 6 Cranch, 148, 160; *Marshall*, C. J.

<sup>6</sup> *Jenkins v. Lester*, 131 Mass. 355. *Infra*, p. 155

<sup>7</sup> *Chase v. Chase*, 2 Allen, 101; *Curtis v. Smith*, 60 Barb. 9.

<sup>8</sup> *Felch v. Hooper*, 119 Mass. 52.

court can appoint a trustee to execute the trusts. If, however, there is no statute to transfer the title to the property, the court is powerless, unless it have jurisdiction over the trustee in whom the title is vested.<sup>1</sup>

If the trust is illegal in the jurisdiction where it is sought to be enforced, the trustees will hold the property on a resulting trust for the heirs.<sup>2</sup>

The beneficiary is entitled to have proper persons and a proper number of trustees, and any person interested in the trust, even though the interest is contingent on the mere possibility of receiving a payment at the discretion of the trustee, may apply to the court in the matter of removing or appointing a trustee.<sup>3</sup>

**Can Compel What.** — The beneficiary can compel the trustee to perform his duties, and if the trustee refuses to sue or defend, the beneficiary may sue or defend in the trustee's name by getting leave of court to do so; but the trustee must be shown to be in default,<sup>4</sup> and indemnified for costs.<sup>5</sup>

The beneficiary has no right to advise or direct his trustee unless the right be expressly conferred by the trust instrument, and if his advice be asked and followed, he may lose his remedy against the trustee should the action be injudicious; therefore, on the whole, it is better to leave the full responsibility on the trustee, where it belongs.<sup>6</sup>

If an express power be given by the trust instrument, it is governed by the general rules applicable to such powers.

He can have the trustee enjoined from committing a

<sup>1</sup> *McCann v. Randall*, 147 Mass. 81. See *supra*, p. 8, and *infra*, p. 155.

<sup>2</sup> *Hawley v. James*, 7 Paige, 213.

<sup>3</sup> *Supra*, pp. 6 and 8.

<sup>4</sup> *Morgan v. Kansas Pacific Railroad*, 21 Blatch. 134.

<sup>5</sup> *Ins. Co. v. Smith*, 11 Pa. St. 120.

<sup>6</sup> *Brady v. Whitchurch*, W. N. 1868, p. 81; *Life Ass'n Scotland v. Siddel*, 3 DeG., F. & J. 58, 74.

contemplated breach of trust, or voting against his wishes if it would cause him irreparable injury.<sup>1</sup>

He may have a receiver appointed to hold the property if it is imperilled by remaining in the hands of the trustee, and pending his removal and the appointment of a new trustee.<sup>2</sup>

In England he may have the estate administered by the court, but such receivership suits are not in vogue in this country in trust estates.<sup>3</sup>

If the trustee commits a breach of trust, the beneficiary may either sue in equity for his damage or loss, or in testamentary trusts may sue on the bond given to the court.

If the trustee has been guilty of a breach of trust in investing or using the funds of the trust, the beneficiary may elect whether he will take the property into which the funds have been converted, or the amount taken with interest.<sup>4</sup> But he must choose, and cannot pursue both remedies;<sup>5</sup> and if he disaffirms a sale, he must return the consideration in absence of fraud.<sup>6</sup> If he follows the property and it is insufficient, he may prove his claim for balance; but if the beneficiaries are not agreed, the court will order whichever remedy it thinks best under the circumstances.<sup>7</sup>

In general, the damage recoverable is the amount of the loss for the remainderman, with simple interest for the life tenant; but compound interest is allowed when the income was to be added to the principal periodically, or

<sup>1</sup> Ames, 276, n. 2.

<sup>2</sup> Jones *v.* Dougherty, 10 Ga. 273. *Supra*, p. 6.

<sup>3</sup> Underhill, pp. 366 and 440.

<sup>4</sup> *Supra*, p. 127.

<sup>5</sup> Barker *v.* Barker, 14 Wis. 131; Perry, § 470 (3). See trustee's liabilities to beneficiary, *supra*, p. 127; Comp. Laws Dak. (1887), § 3930; Code Ga. (1895), §§ 3183, 3184; Rev. Code N. Dak. (1895), § 4273; Civ. Code Cal. (1885), § 2237.

<sup>6</sup> Yeackel *v.* Litchfield, 13 Allen, 417.

<sup>7</sup> Morse *v.* Hill, 136 Mass. 60.

where there is a presumption that more was earned, or the breach was wilful.<sup>1</sup>

**Right to Information.** — The beneficiary has a right to full information about the concerns of the trust at all reasonable times.

He can examine the deeds or opinions of counsel consulted by the trustee in respect to the trust affairs,<sup>2</sup> but, as a condition precedent, he must show his interest, and may not examine them to establish an interest. He can examine the books of accounts and securities at all reasonable times, and is entitled to an accounting at reasonable intervals, usually once a year.<sup>3</sup>

But he has no right to demand that the trustee shall assist him in encumbering his interest by answering the inquiries as to how his interest is already encumbered, nor can a stranger acting under his authority require the trustee to answer.<sup>4</sup>

**Right to Income.**<sup>5</sup> — In a simple trust, as, for instance, where A holds property in trust to permit B to enjoy the income, the income as it accrues belongs to B immediately, and he may require the trustee to give him a power of attorney to collect it for himself; but in the case of an ordinary trust, income means net income after deducting the taxes and repairs and ordinary current expenses attending the estate.<sup>6</sup> So the trustee is entitled to collect it, and make the necessary deductions before paying it over.

In such cases, the net income can only be ascertained yearly, and therefore would seem to be payable only on

<sup>1</sup> *Supra*, p. 127.

<sup>2</sup> *Smith v. Barnes*, L. R. 1 Eq. 65; *Ames*, 470, n.

<sup>3</sup> As to accounts, see *supra*, p. 77.

<sup>4</sup> *Low v. Bouverie*, 3 Ch. D. 1891, p. 82.

<sup>5</sup> As to what is income, see *supra*, pp. 104 *et seq.*

<sup>6</sup> *Watts, Adm. v. Howard, Adm.*, 7 Met. 478.

the settlement of the yearly account; but as the income belongs to the beneficiary, the court would probably not allow a large amount to lie in the hands of the trustee for such a long period if the beneficiary needed it.

Most trust instruments have an express provision that the net income shall be paid quarterly or semiannually, which provision would govern in all cases.

There has been much discussion in England as to the beneficiary's share of the first year's income, and the decisions have been classified by Mr. Lewin.<sup>1</sup>

In Massachusetts, by statute the life beneficiary is entitled to the income on the fund given for his use from the date of the testator's death, and where the whole or a part of the fund does not produce income, on the conversion of the property the proceeds are divided into income and principal so as to give the life beneficiary the usual rate of income as explained, *supra*, page 105. In other jurisdictions, in the absence of statute the beneficiary only gets the actual income that accrues on the fund,<sup>2</sup> but the intention of the settlement, express or implied, will govern, if it can be discovered.<sup>3</sup>

The trustee may withhold income to reimburse himself for money erroneously paid to the beneficiary, but cannot reimburse himself in this manner for an individual loan made before he became trustee.<sup>4</sup>

As to what constitutes income, see pages 104 *et seq.*

**Right to Support.** — The question of the beneficiary's right to support has been treated already.<sup>5</sup> In Georgia there is an unusual statutory provision, that where the trustee fails to support the beneficiary, the latter may contract debts binding the trust property.<sup>6</sup>

<sup>1</sup> Lewin, pp. 321 *et seq.*

<sup>2</sup> Williamson *v.* Williamson, 6 Paige, 298.

<sup>3</sup> Keith *v.* Copeland, 138 Mass. 303.

<sup>4</sup> *Supra*, p. 134; *infra*, p. 154.

<sup>5</sup> *Supra*, pp. 65 and 69.

<sup>6</sup> Code of Ga. (1895), § 3187.

**Right to a Conveyance.** — If the trust is merely a dry trust, that is to say, if A is given property simply to hold in trust for B, or if the purposes of the trust have been accomplished, and there is no reason why it should be continued, and all the beneficiaries, being *sui juris*, desire it, the trust may be terminated or modified in any way.<sup>1</sup> Though by statute in New York the court may in its discretion refuse to order a conveyance.<sup>2</sup>

If, in such case, one of the beneficiaries objects, the court may sever the trust, and order the shares of the others to be conveyed;<sup>3</sup> but as a general rule, the trustee may say that he will convey all or none.<sup>4</sup>

The English rule, which also prevails in some of the States, is that, the beneficial estate having vested absolutely and entirely in the beneficiary, he may call for a conveyance if he be *sui juris*;<sup>5</sup> but the American rule prevailing in most States is, that, although the beneficiary be *sui juris*, and have the whole estate, he cannot call for a conveyance if it would defeat the intention of the settlor, as in such a case the purpose of the trust has not been accomplished.<sup>6</sup>

Thus, where property is left in trust for A until he reaches the age of thirty years, under the English rule A may call for a conveyance on becoming of age, while under the American rule the trust continues until he becomes thirty years old;<sup>7</sup> though it is not definitely decided that the estate might not be taken by a creditor,<sup>8</sup> still it would seem that he would have no greater right than his debtor

<sup>1</sup> *Goodson v. Ellisson*, 3 Russell, 583; *Claflin v. Claflin*, 149 Mass. 19.

<sup>2</sup> *Lent v. Howard*, 89 N. Y. 169.

<sup>3</sup> *Walker v. Beal*, 106 Mass. 109; *Henderson's Est.*, 15 Phila. 598.

<sup>4</sup> *Goodson v. Ellisson*, *ubi supra*.

<sup>5</sup> *Saunders v. Vautier*, 4 Beav. 115; *Lewin*, p. 774.

<sup>6</sup> *Seamans v. Gibbs*, 132 Mass. 239; *Zabriskie v. Wetmore*, 26 N. J. Eq. 18; *Hutchison's App.*, 82 Pa. 509; *Ames*, 452, n.; *Rhoads v. Rhoads*, 43 Ill. 239; *Gunn v. Brown*, 63 Md. 96.

<sup>7</sup> *Claflin v. Claflin*, 149 Mass. 19.

<sup>8</sup> *Ibid.*

through whom he claims.<sup>1</sup> But where the estate is absolute and unqualified in the beneficiary, and can be alienated or taken for his debts, and he desires it, he may have a conveyance.<sup>2</sup>

If, however, all the beneficiaries and the trustee agree to terminate the trusts in such a case, as no one else is interested, and there is no one who can object even under the American rule, the trust can be determined without a decree,<sup>3</sup> but if the aid of the court is sought it will not be given.<sup>4</sup>

Nothing less than the whole of an absolute estate will entitle the beneficiary to a conveyance, even under the English rule. Therefore, if there are contingent or unascertained interests there can be no agreement.<sup>5</sup> And a beneficiary who has a life estate, with power of disposition by will, has not such an absolute estate as entitles him to a conveyance;<sup>6</sup> nor could he call for one if the trustee has discretion as to the application of the income.<sup>7</sup> If, however, the interest of the beneficiary is vested subject merely to some simple duty, such as the payment of an annuity, the beneficiary may have a conveyance by securing the annuity properly. But obviously the maker of the trust can prevent the beneficiary's calling for a conveyance even under the English rule, by making a small provision for some person unascertained, or for the trustee himself.

The trustee cannot set up superior title in a suit for a conveyance.<sup>8</sup> Nor can the beneficiary deny the trustee's title if he is his landlord, nor can the beneficiary buy in a tax title and hold it against the estate.<sup>9</sup>

<sup>1</sup> *Young v. Snow*, 167 Mass. 287.

<sup>2</sup> *Sears v. Choate*, 146 Mass. 395.

<sup>3</sup> *Lemen v. McComas*, 63 Md. 153.

<sup>4</sup> *Young v. Snow*, *ubi supra*.

<sup>5</sup> *Brandenburg v. Thorndike*, 139 Mass. 102; *Walton v. Follansbee* (Ill.), 23 N. E. Rep. 332.

<sup>6</sup> *Sise v. Willard*, 164 Mass. 48.

<sup>7</sup> *Russell v. Grinnell*, 105 Mass. 425.

<sup>8</sup> *Neyland v. Bendy*, 69 Tex. 711.

<sup>9</sup> *Supra*, p. 38.

**Right to Possession.** — Ordinarily in America the right of possession of the real estate and chattels belongs to the trustee ;<sup>1</sup> but if the instrument intends that the beneficiary is to enjoy them in specie, he will be entitled to possession, and by statute in England the right of possession is in the beneficiary.<sup>2</sup> As, for instance, where he is intended to reside in a house and use the furniture. But where the personal property is likely to be injured or lost in his possession, he may be required to give security for it. If he is given the use of personal property he may wear it out, and neither he nor the trustee will be required to replace it ; and unless they are heirlooms or the appurtenances of an estate, such as the tools on a farm or the furniture of a furnished house, he may use them wherever he pleases.<sup>3</sup>

Where the instrument has no specific directions, the trustee will be justified in putting the beneficiary in possession of a dwelling-house or farm as a home ; but the beneficiary cannot compel him to buy him a residence, though the trustee may do so.<sup>4</sup>

The beneficiary has no right to the possession of the trust securities ; but where he is given the dividends on certain specific stocks, or the rents of certain specific estates, he can require the trustee to give him a power of attorney to collect ; but where the trustee has the duty to manage the estate and pay over the net income, the beneficiary has no such right.

**The Beneficiary may lose his Rights against the Trustee by Release, Acquiescence, and the Running of the Statute of Limitations.** — If the beneficiary is *sui juris*,<sup>5</sup> and fully informed, and has a full knowledge and appre-

<sup>1</sup> *Dorr v. Wainwright*, 13 Pick. 328. *Supra*, pp. 38 and 86.

<sup>2</sup> *Ames*, 467, n. 2.

<sup>3</sup> *Supra*, pp. 91, 108 ; *Lewin*, p. 768.

<sup>4</sup> *Schaffer v. Wadsworth*, 106 Mass. 19.

<sup>5</sup> A married woman is *sui juris*, and may release as to her separate estate ; *Walker v. Shore*, 19 Ves. Jr. 387 ; but a married woman without power of anticipation cannot release. *Fyler v. Fyler*, 3 Beav. 550, 563.

ciation of the facts, he may make a valid and binding release of any claim he has against the trustee for a breach of trust or otherwise.<sup>1</sup> If, however, the beneficiary has come of age lately, he should be advised by counsel, as his inexperience may form a ground to invalidate his action. Nor will a beneficiary be bound by his release if there was fraud, accident, or mistake.<sup>2</sup>

If the beneficiary knew and urged a breach of trust, he not only cannot recover, but is liable to contribution,<sup>3</sup> even though the beneficiary be a married woman without power of anticipation.<sup>4</sup>

If the beneficiary who is *sui juris* assents to a breach of trust, such as an improper investment, he cannot subsequently recover the loss, if he was fully informed; but the assent to one improper investment will not authorize a second of the same character.<sup>5</sup> If he has been misled by the trustee his assent will not conclude him, and he may disaffirm the transaction on learning the truth,<sup>6</sup> even though the transaction has been set forth in an account settled in court.<sup>7</sup> So, also, if the beneficiary who is *sui juris* knows of a breach of trust, and neglects to make any claim,<sup>8</sup> or does not make it for an unreasonable time,<sup>9</sup> he will be taken to have assented, and so cannot complain; but time will not deprive a beneficiary of his remedy unless he has been guilty of laches;<sup>10</sup> a remainderman will

<sup>1</sup> *Pope v. Farnsworth*, 146 Mass. 339; *Brice v. Stokes*, 11 Ves. Jr. 319, 325.

<sup>2</sup> *Perry*, § 922.

<sup>3</sup> *Raby v. Ridehalgh*, 7 DeG., M. & G. 104. See *supra*, p. 124.

<sup>4</sup> Generally, but by statute in England; see *Griffith v. Hughes*, 3 Ch. D. 1892, p. 105.

<sup>5</sup> *Mant v. Leith*, 15 Beav. 524; *Adair v. Brimmer*, 74 N. Y. 539.

<sup>6</sup> *Nichols, Appellant*, 157 Mass. 20.

<sup>7</sup> *Morse v. Hill*, 136 Mass. 60.

<sup>8</sup> *Badger v. Badger*, 2 Wall. 87.

<sup>9</sup> *Denholm v. McKay*, 148 Mass. 434, 441.

<sup>10</sup> *Prevost v. Gratz*, 6 Wheat. 481, 498, Story, J.; transfer of shares after 60 years held barred: *Halsey v. Tate*, 52 Pa. St. 311; *Iverson v. Saulsbury*, 65 Ga. 724; *Speidel v. Henrici*, 120 U. S. 377.

not be bound until his estate falls into possession.<sup>1</sup> But a minor may cut himself off by inducing the trustee to act by fraud.<sup>2</sup>

What constitutes laches depends on the circumstances of each case, but as a general rule mere lapse of time itself will not bar the beneficiary where the position of others has not been changed.<sup>3</sup>

But a beneficiary who has delayed electing whether or not to confirm a sale, in order to see whether the property will rise or fall, cannot elect at a later time.<sup>4</sup>

Ordinarily the statute of limitations will not run against the beneficiary,<sup>5</sup> since the possession of the trustee is in the interest of the beneficiary; but if the trustee takes an adverse position, repudiates the trust, and brings the matter home to the beneficiary so that he is compelled to take action,<sup>6</sup> he may take the benefit of the statute and the time will run from the date when he brought his adverse claim distinctly to the beneficiary's notice; but the statute will not begin to run against the remainderman until his estate vests in possession; nor will it begin to run so long as the beneficiary is under the control of the trustee.

**IV. Rights against Strangers.** — The beneficiary has no claim to the property itself,<sup>7</sup> but he may constitute any person into whose hands it has come wrongfully a trustee for him.<sup>8</sup> As, for instance, a bank which has received stocks and bonds, which it knows to belong to the trust

<sup>1</sup> *Bennett v. Colley*, 5 Sim. 181; S. C. 2 Myl. & K. 225; but see *Browne v. Cross*, 14 Beav. 105.

<sup>2</sup> Preceding page, n. 3.

<sup>3</sup> *Morse v. Hill*, 136 Mass. 60, 65, 66.

<sup>4</sup> *Hoyt v. Latham*, 143 U. S. 553.

<sup>5</sup> *Speidel v. Henrici*, 120 U. S. 377; *Riddle v. Whitehill*, 135 U. S. 621.

<sup>6</sup> *Philippi v. Phillippe*, 115 U. S. 151; *Davis v. Coburn*, 128 Mass. 377; *Hubbell v. Medbury*, 53 N. Y. 98.

<sup>7</sup> *Stimpson*, Am. Statute Law, p. 237.

<sup>8</sup> *Third National Bank v. Lange*, 51 Md. 138.

estate, as security for a personal loan to the trustee, holds the stocks and bonds in trust for the beneficiaries.<sup>1</sup> Although the beneficiary must sue in the name of the trustee, the defendant cannot set up the defence that the trustee was a joint wrongdoer *in pari delicto*.<sup>2</sup>

A disseisor will not be held a trustee since he claims the property by a title which supersedes that of the trustee ;<sup>3</sup> and a purchaser for value without notice takes the property free of trust, although he claims under the trustee, that is to say, if the transferee bought the estate for value, without notice of the trust, then he in a court of equity is equally meritorious with the beneficiary, and the court will not help the beneficiary against him, and so he may keep his legal title, and will not be compelled to hold it as trustee.<sup>4</sup>

A purchaser with notice from the trustee, if he denies the beneficiary's title, can avail himself of statute, and it will begin to run from the time when the beneficiary is in possession and not under disability ; and in case of fraud, from the discovery of the fraud, or when it might have been discovered with reasonable diligence ;<sup>5</sup> and the usual period of adverse possession is good against the beneficiary.<sup>6</sup>

Aside from those who claim by a superior or adverse title, the beneficiary may follow the property as long as it can be identified ;<sup>7</sup> and if it can be clearly shown that other property has been substituted for the trust property, the substituted property can be followed. Where the

<sup>1</sup> *Loring v. Brodie*, 134 Mass. 453.

<sup>2</sup> *Wetmore v. Porter*, 92 N. Y. 76.

<sup>3</sup> *Supra*, p. 24.

<sup>4</sup> *Supra*, p. 39.

<sup>5</sup> *McCoy v. Poor*, 56 Md. 197.

<sup>6</sup> *Molton v. Henderson*, 62 Ala. 426; *Williams v. First Presb. Soc.*, 1 Ohio St. 478; *Ward v. Harvey*, 111 Ind. 471; *Hall v. Ditto*, 12 S. W. Rep. 941 (Ky.); *Merriam v. Hassam*, 14 Allen, 516, 520; *Atty. Gen. v. Proprietors, etc.*, 3 Gray, 1.

<sup>7</sup> See purchaser for value, *supra*, p. 39.

trust funds form only part of the consideration of the substituted property, the trust may be enforced to the extent of the trust property.<sup>1</sup>

Money is said to have no ear-mark,<sup>2</sup> so if it becomes mingled with other money it cannot be followed;<sup>3</sup> but the mere deposit of trust money with other money does not destroy its identity if the trust funds can be clearly shown as a sum added to another sum;<sup>4</sup> and in such a case a beneficiary does not become a general creditor of the trustee who has mingled the trust funds with his own. He may claim all that the trustee cannot identify, nor is a repayment to him on the eve of bankruptcy a fraudulent preference;<sup>5</sup> but a person who receives property from an unfaithful trustee cannot be held to be trustee of property which cannot be connected with the trust fund.<sup>6</sup>

Where the beneficiary has become a simple creditor, he is preferred in Georgia<sup>7</sup> and Wisconsin<sup>8</sup> next to funeral expenses, but generally a beneficiary has no preference on account of the nature of his claim.<sup>9</sup>

The beneficiary is not bound to follow the trust funds if he prefers to hold the trustee;<sup>10</sup> but he may elect which he will pursue; he cannot however hold both remedies, and must elect one of them.<sup>11</sup>

<sup>1</sup> Important cases on tracing unmixed funds *contra*; Underhill, 458 n.

<sup>2</sup> *Deg v. Deg*, 2 P. Wms. 411, 414.

<sup>3</sup> *Pennell v. Deffell*, 4 DeG., M. & G. 372, 381.

<sup>4</sup> *Re Hallett, Knatchbull v. Hallett*, 13 Ch. D. 696, and *Pennell v. Deffell*, *supra*. See Morse on Banks and Banking, 3d ed., § 590.

<sup>5</sup> *Lewin*, p. 1025.

<sup>6</sup> *Howard v. Fay*, 138 Mass. 104.

<sup>7</sup> Ga. Code (1895), § 3189.

<sup>8</sup> *McLeod v. Evans*, 66 Wis. 401; see *Bowers v. Evans*, 71 Wis. 133.

<sup>9</sup> *Little v. Chadwick*, 151 Mass. 109; *Cavin v. Gleason*, 105 N. Y. 256. See Amer. and Eng. Encyc. Law, vol. 27, p. 257.

<sup>10</sup> *Evans's Estate*, 2 Ashmead, 470; *Wayman v. Jones*, 4 Md. Ch. 500; *Clark v. Wright*, 24 S. C. 526.

<sup>11</sup> *Barker v. Barker*, 14 Wis. 131; *Hodges v. Bullock*, 15 R. I. 592, 595.

If he elect to follow the property he may choose whether he take the trust property as it is, or have it converted and charge the trustee with loss.<sup>1</sup>

**Right against Stranger aiding in Breach of Trust.** — The beneficiary has an equitable suit against a person who aids in a breach of trust; as for instance against a person to whom the trustee has made a wrongful payment in distributing the estate, or a tenant for life to whom he has paid or loaned part of the corpus of the estate,<sup>2</sup> and this irrespective of the trustee's right to recover the payment. So too he has a direct claim where a banker delivered up to one trustee the bonds<sup>3</sup> or money<sup>4</sup> which were confided to him by three trustees, or where a corporation transferred stock improperly, that is to say, in a manner which it knew to be a violation of the trust.<sup>5</sup>

In such cases they will have notice of the trust if it is described on the face of the certificate, although the mere occurrence of the word "trustee" has been held not to be notice;<sup>6</sup> but the general rule seems to be that the word "trustee" alone is a sufficient notice of a trust to put the purchaser or corporation on its inquiry as to the trustee's right to transfer;<sup>7</sup> they must ascertain the right of the trustee to make the proposed transfer at their peril. The fact that there is a usage to make transfers<sup>8</sup> is not an excuse; nor can they rely on the power of sale which accom-

<sup>1</sup> *Supra*, pp. 127 and 142.

<sup>2</sup> *Cowper v. Stoneham*, 68 L. T. R. 18; *Dixon v. Dixon*, L. R. 9 Ch. Div. 587.

<sup>3</sup> *Mendes v. Guedella*, 2 Johns. & Hem. 259. *Supra*, p. 88.

<sup>4</sup> *Magnus v. Queensland N. Bk.*, 37 L. R. Ch. Div. 466.

<sup>5</sup> *Lowell, Transfer of Stock*, § 66; *Loring v. Salisbury Mills*, 125 Mass. 138; *Bayard v. Farmers & Mechanics' Bank*, 52 Pa. St. 232.

<sup>6</sup> *Lowell, Transfer of Stock*, § 69; *Albert v. City of Baltimore*, 2 Md. 159; *Stockdale v. South Sea Co.*, Barnardston, 363.

<sup>7</sup> *Shaw v. Spencer*, 100 Mass. 382; *Bayard v. Farmers & Mechanics' Bank*, *ubi supra*. *Supra*, p. 40.

<sup>8</sup> *Shaw v. Spencer*, 100 Mass. 382.

panies the office of executor,<sup>1</sup> but must ascertain if he has it. If they know that the executor is acting in fact as trustee, under the title of executor,<sup>2</sup> they are liable.

As this duty is placed upon the corporation, it may require the trustee making the transfer to supply the documents or other evidence showing his right to make the transfer, but in the absence of a by-law or statute requiring a deposit of the documents, it can only insist on inspection of them, and not on the filing of copies.<sup>3</sup>

If the beneficiary is actually in possession of the trust property,<sup>4</sup> he may maintain any action for the property which any other bailee might maintain; and no one but the trustee, or some one claiming under him, can set up his title against the beneficiary,<sup>5</sup> and in Pennsylvania he might maintain an action for its recovery,<sup>6</sup> where, owing to lack of equity courts, the beneficiary has unusual privileges.<sup>7</sup>

Ordinarily, the possession of the beneficiary is the possession of the trustee, and he must sue in the name of the trustee.<sup>8</sup>

He cannot protect the property in equity any more than at law, and could not, for instance, restrain the assessors from taxing the estate,<sup>9</sup> nor sue in tort for an injury to it.<sup>10</sup>

**V. Liabilities.** — The beneficiary incurs no liabilities through his beneficial ownership, unless it be for taxation.

<sup>1</sup> Lowell, Transfer of Stock, § 72.

<sup>2</sup> *Ibid.*, § 73.

<sup>3</sup> *Bird v. Chicago, I., & N. Railroad*, 137 Mass. 428.

<sup>4</sup> *Newhall v. Wheeler*, 7 Mass. 189.

<sup>5</sup> *Stearns v. Palmer*, 10 Met. 32.

<sup>6</sup> *Bailey v. N. Eng. Mut. L. Ins. Co.*, 114 Mass. 177.

<sup>7</sup> *Fernstler v. Seibert*, 114 Pa. St. 196; *Miller v. Zufall*, 113 Pa. St. 317.

<sup>8</sup> *Supra*, p. 149.

<sup>9</sup> *Western Railroad Co. v. Nolan*, 48 N. Y. 513.

<sup>10</sup> *Loring v. Salisbury Mills*, 125 Mass. 138, 141.

He may be liable for taxes where the trustee is a non-resident, and such a tax is constitutional.<sup>1</sup>

He is not liable as an owner, and, for instance, cannot be sued for an accident caused by the blowing over of a fence.<sup>2</sup>

He is not liable to indictment for a nuisance on the trust property.<sup>3</sup> He does not become liable as a stockholder, nor where a property qualification is needed does he gain a vote by his ownership.<sup>4</sup>

A beneficiary who induces a trustee to commit breach of trust is liable to the other beneficiaries, and may be liable to the trustee, but his liability is not affected by the fact that he is a beneficiary, but he becomes liable by his acts as an individual. If he obtains a wrongful advance of the principal, the trustee may withhold his income to make up the deficit,<sup>5</sup> but the court will not order him personally to refund a payment made by the trustee and disallowed in the trustee's account, and which the beneficiary took innocently. In such cases the trustee's remedy does not go farther than the right to recoup out of the income;<sup>6</sup> but his co-beneficiary may have a right to recover from him personally.<sup>7</sup> The trustee cannot withhold the income as against an assignee of the beneficiary's estate to reimburse himself for money lent the beneficiary before he was appointed trustee.<sup>8</sup>

If he litigates unnecessarily, he may be liable for costs.

<sup>1</sup> *Supra*, p. 25.

<sup>2</sup> *Norling v. Allee*, 10 N. Y. Sup. 97.

<sup>3</sup> *People v. Townsend*, 3 Hill, 479.

<sup>4</sup> *Lewin*, p. 247.

<sup>5</sup> *Crocker v. Dillon*, 133 Mass. 91.

<sup>6</sup> *Bate v. Hooper*, 5 DeG., M. & G. 338.

<sup>7</sup> *Supra*, p. 152.

<sup>8</sup> *Abbott v. Foote*, 146 Mass. 333; Mass. Pub. Stat. (1882), ch. 168, § 15; *supra*, p. 134.

## PART IV.

### INTERSTATE LAW.

A TRUST is invalid if it is contrary to the law or policy of the jurisdiction where it is sought to enforce it.

Thus a trust of land for a beneficiary in a jurisdiction where the beneficiary cannot hold land himself is invalid.<sup>1</sup>

A trust can be enforced wherever the property is itself,<sup>2</sup> or wherever personal service can be got on the trustee,<sup>3</sup> even though it concern land in another jurisdiction, since the court can commit the trustee for contempt if he refuses to obey its decree, or can appoint a trustee in his place to execute it;<sup>4</sup> but if the trust is established by the judicial decree of one State, it will not be enforced by the courts of another State unless it concern real estate in that other State,<sup>5</sup> and trusteeship be taken out there. Or in New Jersey if a resident beneficiary desires it.<sup>6</sup>

The courts of a State by whose decree a trust is established may regulate the trust, although both the trustees and beneficiaries reside in other States;<sup>7</sup> but a court

<sup>1</sup> *Paschal v. Acklin*, 27 Tex. 173.

<sup>2</sup> *Supra*, p. 8.

<sup>3</sup> *Massie v. Watts*, 6 Cranch, 148, 160. *Supra*, p. 140.

<sup>4</sup> *Cooley v. Scarlett*, 38 Ill. 316; *Story, Eq. Juris.*, 11th ed., §§ 1291 *et seq.*

<sup>5</sup> *Mass. Pub. Stat.* (1882), ch. 141, § 28; *Jenkins v. Lester*, 131 Mass. 355; *Curtis v. Smith*, 6 Blatch. C. C. 537. *Supra*, p. 140.

<sup>6</sup> *Gen. Stat. N. J.* (1895), p. 394, § 112.

<sup>7</sup> *Supra*, p. 8, and p. 140.

can appoint a trustee to carry out the trusts established by a foreign will if it has the trust property in its jurisdiction.<sup>1</sup>

**Non-resident Trustee.** — When the trustee removes from the State or remains out of the jurisdiction, he may be removed.<sup>2</sup>

If the property is within the jurisdiction and there is a statute vesting the estate in a new trustee, the matter will be terminated; but if there is no personal service on the absent trustee and the property is with him, as in the case of personal property, or if there is no statute vesting the estate in the new appointee, a conveyance must be obtained from the former trustee, and the new trustee can sue him wherever he can find him.<sup>3</sup>

In Pennsylvania, the court may appoint a co-trustee for a non-resident trustee.<sup>4</sup>

As a rule, the court will not appoint a non-resident trustee, and in some jurisdictions they are forbidden to do so;<sup>5</sup> but in others, where the beneficiary is a foreigner, they will appoint a foreign trustee.

If a non-resident trustee holds land and neglects his duty, the court can in some States by statute appoint a trustee, and order the land sold.<sup>6</sup>

The court can give a foreign trustee leave to sell land, and remove the proceeds to the jurisdiction of his original appointment.

So, too, the court can order personal property<sup>8</sup> to be conveyed to a non-resident trustee where the beneficiaries

<sup>1</sup> Rev. Stat. Ohio (1890), § 5990.

<sup>2</sup> *Supra*, p. 20.

<sup>3</sup> See *supra*, p. 140.

<sup>4</sup> Brightly's Dig. Pa. (1894), p. 2034, § 52. A singular remedy, since joint action of the trustees is indispensable.

<sup>5</sup> *Supra*, p. 16.

<sup>6</sup> Brightly's Dig. Pa. (1894), p. 2031, § 30.

<sup>7</sup> Rev. Stat. Me. (1883), ch. 65, § 39; Code of Va. (1887), § 2630; Code W. Va. (1891), p. 680, § 4.

<sup>8</sup> *Supra*, p. 9.

live out of the State,<sup>1</sup> and where they are satisfied that a proper bond has been given.<sup>2</sup>

Where a trustee takes out ancillary trusteeship, he must settle his account in the principal jurisdiction for any surplus funds in his hands after settling his account in the subsidiary jurisdiction.<sup>3</sup>

A trustee need not inventory or account for foreign real estate, or the rents of it, in the jurisdiction of his appointment.<sup>4</sup>

In order to control the land, he must be appointed in the jurisdiction where the land lies,<sup>5</sup> and if he sells by order of court it must be by the order of the court where the land lies.

**Foreign Investments.** — As a general rule, a court will not authorize foreign investments beyond its jurisdiction and control. As, for instance, mortgages or real estate out of the jurisdiction.<sup>6</sup> This rule has, however, been more observed in the breach than in the compliance by trustees.

There may be good reason why a foreign investment would be authorized, as, for instance, where the beneficiary resides out of the State and needs a home;<sup>7</sup> or where both trustee and beneficiary reside in another jurisdiction, and only come into the jurisdiction of the trust to account.

**Taxation.**<sup>8</sup> — The trustee will be taxed on real estate

<sup>1</sup> Mass. Pub. Stat. (1882), ch. 144, § 17; Annot. Stat. Mich. (1882), § 5831; Brightly's Dig. Pa. (1894), p. 2032, § 40; Code Va. (1887), § 2632; Gen. Stat Conn. (1888), §§ 467, 468; Code Ala. (1896), § 4179; Code W. Va. (1891), p. 680, §§ 4-6.

<sup>2</sup> Ky. Stat. (1894), §§ 4709-4711; Gen. Stat. N. J. (1895), p. 3685, §§ 9, 10.

<sup>3</sup> Clark *v.* Blackington, 110 Mass. 369.

<sup>4</sup> *Supra*, p. 78.

<sup>5</sup> Generally, and Mass. Pub. Stat. (1882), ch. 141, § 7.

<sup>6</sup> *Supra*, p. 99; Orniston *v.* Olcott, 84 N. Y. 339.

<sup>7</sup> Amory *v.* Greene, 13 Allen, 413.

<sup>8</sup> *Supra*, p. 25.

where the land lies, and may be compelled to pay a tax on the income in his home State.<sup>1</sup>

The trustee may be liable to taxation on the personal property where he resides, and, if the beneficiary resides in another State, the latter may also be liable to an additional tax.<sup>2</sup>

The statutes are too numerous and varied to cite, and the principle only is stated.

<sup>1</sup> Such laws are not unconstitutional. *Hunt v. Perry*, 165 Mass. 287.

<sup>2</sup> *Supra*, p. 154.

# INDEX.

---

ABANDON, trustee cannot abandon trust, 17.

ACCEPTANCE OF TRUST, 4.

See TABLE OF CONTENTS, p. vii, § iii.

need not accept trust, 2.

how made, 4.

implied from meddling in trust, 5.

implied from not disclaiming seasonably, 6.

duty to investigate trust deeds and property, 82, 83.

ACCOUNT, generally, 77 to 80.

beneficiary entitled to, 143.

corrected by one beneficiary all get benefit, 132.

refusal to is cause for removal, 19.

must keep accurate and separate, 77.

open to inspection of beneficiary, 77.

should be settled periodically, 77.

settlement in court, 79-80.

duty to examine predecessors', 83, 85.

form of, 78.

must account for any benefit received, 29.

liable for joining in false account, 122, 124.

trustee's lien until settled, 119.

effect of, 79.

fictitious account not proper method of getting instructions of court, 82.

does not take place of decree of distribution, 118.

ends liability, 128.

expense of charged to whom, 29, 80.

ACCUMULATIONS OF INCOME, become principal, 108.

ACQUIESCENCE, in breach of trust estops beneficiary, 148.

ACTIONS. See SUITS.

ACTIVE TRUSTEE. See MANAGING TRUSTEE.

ADDITIONS. See ALTERATIONS, ACCUMULATIONS.

ADMINISTRATOR. See EXECUTOR.

ADMISSIONS, by beneficiary, effect of, 64.  
    by one trustee, 64.

ADVERSE INTEREST, trustee cannot have, 73.  
    must resign if he acquires, 73.  
    beneficiary cannot acquire, 38, 146.

ADVICE, of counsel excuses what, 126.  
    trustee may ask court, 81, 118.  
    beneficiary no right to give, 141.

AGENT, cannot exercise trustee's powers, 48, 74.  
    may be employed when, 76.

ALIEN, as beneficiary, 130.  
    as trustee, 13.

ALIENATION BY BENEFICIARY, what passes, 134.  
    of equitable estate, 134.  
    restraint on, 136-139.  
        See RESTRAINT ON ALIENATION.

ALIENATION BY TRUSTEE, 39-45.  
    effect of conveyance, 39.  
    what title passes, 39, 40.  
    attachment and execution, 41.  
    set off, 42.

ALTERATIONS, charge on principal, 114.

ANCILLIARY TRUSTEESHIP, 157.

ANIMALS, trusts for, 130.

ANTICIPATION. See RESTRAINT ON ALIENATION.  
    provisions against, 136.

APPEAL, 73.  
    duty to maintain, 74.

APPLICATION OF PURCHASE MONEY, 59-60.

APPOINTEE, may disclaim trust, 2.

APPOINTMENT, who administers estate, under general or  
    special power, 12.  
    exercise of general makes estate assets, 135.

APPOINTMENT OF TRUSTEE. See TABLE OF CON-  
    TENTS, p. viii, § iv.

**APPOINTMENT OF TRUSTEE**, 13.

- made when necessary or proper, 6, 141.
- temporary trustee may be appointed, 6.
- how made, 6-7.
- made by court when, 7.
- what court has jurisdiction, 8, 9, 140, 156.
- made in what place, 8, 9.
- trustee may be appointed where property is, 140, 156.
- who may be appointed trustee, 14, 15, 16.
- foreign appointment, 16, 156.
- who are proper persons, 13-15.
- incomplete without title to the property, 9.
- regularity not questioned in collateral proceedings, 16.

**APPORTIONMENT**, none of dividends, 111.

- of interest, 112.
- of coupons, 113.
- at end of life estate, 113.
- on conversion of security, 104.

**APPRECIATION OF PROPERTY**, belongs to principal, 107.**ARBITRATION**, power of, 64.**ASSENT**, by beneficiary to breach of trust, 148.**ASSIGNMENT**, trustee's general assignment does not pass trust estate, 40.

- beneficial estate may be assigned, 133, 134.

**ATTACHING CREDITOR** is sometimes purchaser for value, 39.**ATTACHMENT**, of trust property for trust debts, 41.

- of trust property for trustee's debts, 41.
- of beneficiary's estate, 134, 136 *et seq.*, 145.

**ATTORNEY**, trustee may be for beneficiary, 72.

- expense charged to trust fund, 29.
- rule as to employing self as, 28.

**ATTORNEY OR AGENT**, payment to, 119.

- trustee may act by when, 49.

**AUGMENTATION**. See **GAIN AND LOSS**.**BANKER**, liable for delivering securities to wrong person, 152.**BANKRUPT**, is unfit to be trustee, 7, 14.**BANKRUPT TRUSTEE**, not necessarily removed, 20.

BANKRUPTCY OF BENEFICIARY, beneficial estate passes  
to assignee, 133.  
gift over on, valid, 139.

BANKRUPTCY OF TRUSTEE, does not affect trust estate,  
40.  
discharges his liabilities, 128.

BENEFICIARY, who may be, 130.  
who is a, 131.  
person who may receive income at trustee's pleasure not,  
66, 131, 138.  
in spendthrift trust, 66, 131, 138.  
his estate, 132.  
no claim on trust property, 23, 132.  
rights against trustee, 140 *et seq.*  
enforced where, 140, 156.  
can compel trustee to perform trust, 141.  
interests not joint, 132.  
may be compelled to act jointly, 132.  
estate of will descend like other property, 133.  
alienation of estate of, 134.  
restraint on alienation of estate, 136.  
right to possession of trust property, 38, 86, 147.  
not usually necessary parties to suit, 23.  
admissions by do not bind trust, 64.  
cannot acquire tax title, 38, 146.  
cannot deny trustee's title as landlord, 38, 146.  
is not stockholder in corporation, 24.  
expense of suit to protect, allowed, 63.  
right to support, 65, 69, 144.  
maintenance and support of, 66.  
support apportioned where several, 68.  
right to conveyance, 145, 146.  
right to information, 77, 143.  
right to account, 77.  
right to income, 143.  
rights as creditor, 151.  
right to follow property, 149.  
must elect whether to hold trustee or follow property, 151.  
stranger aiding in breach of trust liable to, 152.  
in possession of property may sue, 23-24, 153.  
contracts with trustee, 71, 72.

**BENEFICIARY** — *continued.*

- gifts to trustee, 72.
- payment of share to before end of trust, 118.
- loss of rights, 147, 148, 149.
- no right to advise trustee, 141.
- may be notified of proposed action, 81.
- may disaffirm transaction, 148.
- trustee's liabilities to, 121.
- may choose damages or property, 142.
- may discharge trustee, 16, 147.
- is unfit to be trustee, 14.
- liabilities, 153.
- causing breach of trust liable, 124.
- liable for fraud, 154.
- need not refund payment, 154.

**BENEFIT**, trustee can take none from trust, 27.

**BETTERMENTS**, not apportioned, 106.  
charged to what, 115.

**BILL FOR INSTRUCTIONS**, 82.

**BONDS**, when required of trustees, 10.  
refusal to give cause for removal, 19.  
sureties may be required, 10.  
expense of Surety Co. charged to whom, 29.  
amount required, 11.  
sureties on executor's bonds liable for his acts as trustee, 12.  
liable for co-trustee if joint bond given, 122.

**BONDS, AS INVESTMENTS**, 97, 98.

- care of, 88.
- purchase of bonds at discount to balance ones at premium  
improper, 112.
- railroad bonds not real securities, 95.
- not mortgage bonds, 95.
- selling at premium, need not be converted, 90.
- interest apportioned when, 112.

**BONDSMEN**. See **SURETIES**.

**BONUS**. See **COMMISSION**.

**BOOKS OF ACCOUNT**, open to beneficiaries' inspection, 77.

**BREACH OF TRUST**, is cause for removal, 19.

- but not if merely technical, 21.

- or accidental, 21.

**BREACH OF TRUST** — *continued.*

stranger aiding in liable, 152.  
liability for, joint and several, 121.  
damages for, 127.  
contribution among those liable, 124.  
beneficiary may elect to follow property or trustee, 151.  
remedy for lost how, 147, 148, 149.  
loss by breach falls on principal, 113.

**BROKER**, commissions charged to trust fund, 29.

commissions as between principal and income, 117.  
rule as to employing self as, 28.  
trustee may be for beneficiary, 72.

**BUILDING LEASES**, 62.**BUILDING**, with personal property conversion, 92.**BUSINESS**, of testator carried on sometimes, 95, 96.**BUSINESS RISKS**, should be converted, 89.**CAPABLE**. See **INCAPABLE**.

trustee should be, 13.  
court will appoint only capable trustee, 15.

**CAPITAL**. See **PRINCIPAL AND INCOME**.**CAPRICE**, is not discretion, 52.**CAPRICE OF BENEFICIARY**, trustee not removed for, 20.**CAPRICIOUS TRUSTS**, trusts for animals, 130.**CARE OF TRUST PROPERTY**. See **CUSTODY**.**CESSER**, gift over of beneficiaries' estate on condition valid,  
139.**CESTUI QUE TRUST**. See **BENEFICIARY**.**CHANGE OF INVESTMENTS**, when made, 94.**CHARGES**, trustee's lien for, 119.

See **EXPENSES**.

**CHATTELS**, not converted when, 91.

who has right to possession of, 86, 108, 147.

**CHECKS**, who may draw, 87, 88.**CHILD**, support of, where parent living, 70.

payment to father for, 71, 119, 125.

**CHOSE IN ACTION**, should notify obligor, 85.

effect of notice. See **NOTICE**.

**CLAIM**, trustee cannot buy up, 28.  
beneficiary cannot buy up, 38, 146.  
beneficiary has none to trust property, 23.  
but may follow it in hands of stranger, 150-151.

**CLERK**, expense of charged to whom, 30.

**COLLECTION**, from debtor to trust and self, apportioned, 73.

**COMMISSIONS**. See **COMPENSATION**.  
what are allowed, 31.  
from what fund paid, 31-32.  
on termination of trust, 32.  
trustee can take no commission from strangers, 27.  
must account for any received, 29.

**COMPENSATION**, rule as to, for expert services, 28.  
trustee entitled what, 30.  
extra on principal, 31.  
for distribution of estate, 32, 119.  
rule for various States, 33-36.  
trustee's lien for, 119.

**COMPETITION**, trustee cannot come in, 73.

**COMPLETION OF DUTIES**, discharges trustee, 16.

**COMPOUND INTEREST**, charged when, 93, 94, 127, 142.

**COMPROMISE OF SUIT**, when proper, 64, 74.

**CONDITION**, on which income to cease valid, 139.  
power dependent on, 50.  
purchaser must see that they are fulfilled, 59.

**CONFLICT OF LAWS**. See **INTER-STATE law**.

**CONSENT**, of beneficiaries, discharges trustee, 16.  
of beneficiary as a condition, 50.

**CONSIDERATION**, must be returned where sale disaffirmed, 142.

**CONTINGENT INTEREST**, sufficient to intervene in appointment of trustee, 141.

**CONTINGENT REMAINDER**, sale of, 56.

**CONTRACT**, to what extent the trustee can bind the estate, 64.  
trustee binds himself personally, 24, 65, 120.  
signing as "trustee" makes no difference, 25, 65, 120.  
for sale not specifically enforced when breach of trust, 59.  
but trustee liable for breach of, at law, 59.  
as to compensation valid, 30.  
between trustee and beneficiary, 71, 72.  
with beneficiary may be set aside, 72.

CONTRIBUTION FOR MAKING GOOD BREACH OF TRUST, from co-trustee, 124.  
from beneficiary, 124, 154.

CONVERSION OF FUND, apportionment between principal and income, 105.

CONVERSION OF REAL INTO PERSONAL PROPERTY, improper, 91-92.  
of real into personal may be authorized by court, 92.  
of infant's estate, 92.  
on *cy près* doctrine, 92.  
implied authority, 93.

CONVERSION OF SECURITIES, into trust investments, 89, 90, 91.  
not of testator's good investments, 90.  
none of property meant to be enjoyed in specie, 91.  
securities at premium not necessarily converted, 90.

CONVEYANCE BY TRUSTEE, what title passes to volunteer, 39.  
to purchaser for value, 39-40.  
to assignee, 40.  
on execution, 41.  
to successor, 43.  
to remainderman, 42.

CONVEYANCE TO REMAINDERMEN, necessary when, 119.

CONVEYANCE, by one trustee void, 38.  
beneficiaries' right to, 145, 146.

CORPORATION, may be a trustee, 13.  
trusts for, 130.  
liability for transfers of stock, 152-153.  
trustee is stockholder in, 24.  
beneficiary is not, 24.  
trustee liable as stockholder, 24.

CO-TRUSTEE, cannot delegate trust to, 74.  
liability for acts of, 122, 123, 124.  
contribution from, 124.

COUNSEL, expenses charged to trust fund, 29  
rule as to employing self as, 28.  
trustee may be for beneficiary, 72.

COUNTER CLAIM. See SET-OFF.

**COURT.** See also **PROBATE COURTS.**  
power to appoint trustee when, 6.  
what court has jurisdiction to remove trustee, 19, 140.  
will remove trustee when, 19-20.  
will not remove when, 20-21.  
may itself administer trust, 6.  
may exercise its discretion in removing a trustee, 19.  
will appoint trustees when, 8.  
what court has jurisdiction to appoint trustees, 8, 155, 156.  
will instruct trustee when, 81, 82.  
may order sale of trust property, 57.  
controls execution of powers when, 51, 52.

**COVENANTS**, trustee liable on in lease, 63.  
or deed, 25, 120.

**CREATOR OF TRUST.** See **SETTLOR.**

**CREDITOR**, beneficiary's rights as, 151.

**CREDITOR OF BENEFICIARY**, his rights against equitable estate, 134-140.  
may set off debt in equity, 42.  
of beneficiary in spendthrift trust, 139.  
of person exercising general power of appointment takes, 135.

**CREDITOR OF TRUST**, remedy against trustee, 41.  
remedy against trust property, 41.

**CRIMINAL LIABILITY**, for nuisance on trust property, 26.  
for taking trust funds, 120.

**CURTESY IN TRUST ESTATE**, 44.  
in equitable estate, 133.

**CUSTODY OF TRUST PROPERTY**, degree of care required, 89.  
cannot give to co-trustee, 123.  
of non-negotiable securities, 88.  
of negotiable securities, 88.  
of trust chattels, 86, 87, 108, 147.

**CY PRÈS**, sale under, 56.  
conversion under, 92.

**DAMAGES FOR BREACH OF TRUST**, measure of, 127.  
usually amount of loss and interest, 127.  
sometimes replace property and earnings, 127.

DAMAGES RECOVERED, not apportioned, 106.

DEATH OF HOLDER OF POWER, destroys power, 53.

DEATH OF TRUSTEE,

- new trustee may be appointed, 6.
- what become of office and title, 2, 17, 43, 44, 46.
- office and title pass to survivor, 17.
- ends trusteeship, 17.
- liability ends at, 121, 128, 129.

DEATH OF SOLE TRUSTEE,

- title passes to whom, 2, 17, 44, 46.
- how title passes to successor, 43.

DEBT, collected from individual and trust debtor apportioned, 73.

- what can be set off, 42.

DECLINE. See DISCLAIMER.

DECREE, of sale must conform to statute, 55.

- appointing trustee should order transfer of title, 10.

DEED, trustee is liable on covenants, 25, 120.

- when liable on recitals, 120.

DEFEND, general power to defend actions, 63.

DELAY, trustee liable for delay in investing, 90.

- in converting, 90.
- beneficiary may lose rights by, 149.

DELEGATE, cannot delegate trust, 74.

- trustee cannot delegate powers, 48, 49.
- ministerial acts may be delegated, 49, 75, 76.
- may employ agent where there is necessity, 76.

DEMAND, of one trustee sufficient, 64.

DEPRECIATION OF PROPERTY, after payment of one beneficiary, 118.

- generally loss of principal, 107, 113.

DESCENT, of equitable estate, 133.

- of legal estate, 43, 44.

DEVESTMENT OF OFFICE, by trust ending, 16.

- by death of trustee, 16.
- by resignation, 17.
- by removal, 19-21.

DEVISE, of equitable estate, 133.

- of legal estate, 43.

**DILIGENCE**, necessary, 75, 85, 87.  
amount required, 90, 99, 125.

**DIRECTOR**, trustee is eligible as stockholder in corporation, 24.  
beneficiary is not, 24.

**DISABILITY OF TRUSTEE**, effect of, 17.

**DISAFFIRM**, beneficiary can disaffirm transaction where misled, 71, 72, 148.  
can disaffirm sale by trustee to self, 58.

**DISAGREEMENT**, of one trustee blocks all action, 47.  
with other trustees, if unreasonable cause for removal, 20.  
with beneficiary, not cause for trustee's removal, 20.

**DISBARMENT**, defaulting trustee liable to, 121.

**DISCLAIMER**, trust may be refused, 2.  
whole trust must be refused, 3.  
if one of several trusts in same instrument, 4.  
heir or representative of deceased trustee cannot always, 2.  
form of, 3.  
how made, 3.  
by refusing to give bond, 3.  
effect of, 4.

**DISCOUNT**, trustee cannot profit by, 28.  
bond purchased at discount does not balance one at premium, 112.

**DISCRETION**, court may exercise in removing trustee, 19.  
honest exercise of not cause of removal, 21.  
unreasonable or prejudiced exercise is cause for removal, 21.  
personal exercise of essential to execution of power, 47.  
cannot be exercised by any one but trustee, 47, 48, 49.  
cannot be delegated to agent or co-trustee, 48.  
cannot be exercised by court, 48.  
controlled by court when, 51, 52.  
amount required in investing, 99.  
in managing trust, 125.  
what is sound in investing, 96, 97, 98.  
"in his discretion" means little, 95.  
of trustee as to support of beneficiary, 66, 67.  
in spendthrift trusts, 138.  
as to support of family, 138.

**DISCRETIONARY POWERS**, execution not controlled by the court, 51-52.

**DISCRETIONARY POWERS**—*continued.*

- reasons for execution need not be given, 52.
- not liable for use of, 126.
- execution set aside for fraud, 52, 53.
- paying whole fund fraud, 69.

**DISCHARGE OF ENCUMBRANCE**, cost apportioned, 113.**DISCHARGE OF TRUSTEE**. See **DEVESTMENT OF OFFICE**.**DISCHARGE OF TRUSTEE**, by end of trust, 16.

- by beneficiary, 147, 148.
- in various ways, 128–129.

**DISSEISOR**, trustee may be, 133.

- of property, not trustee, 150.

**DISTRIBUTION**, of trust fund at trustee's risk, 117.

- payment of shares at different times, 118.
- may have decree for, 118.
- by fictitious account improper, 118.
- compensation for, 119.
- conveyance to remainderman necessary when, 119.

**DIVIDENDS**, ordinary are income, 109.

- on wasting investments, 109.
- extra or stock belong to whom, 109–110.
- not apportioned, 111.

**DIVISION OF TRUST**, cannot disclaim part, 3.

- cannot accept part, 4.
- payment of part, 118.

**DOWER**, in trust estate, 44.

- in equitable estate, 133.

**DRUNKARD**, unfit trustee, 14.

- may be removed from office, 20.

**DUTY**, neglect of. See **NEGLECT**.

- ignorance of no excuse, 125.
- where trustee is in doubt, may notify beneficiary of intended action, 81.
- may get instructions of court, 81, 82.
- to exercise utmost good faith, 72.
- not to aid adverse claimants, 73.
- not to come in competition, 73.
- is all to the trust, 73.
- to exercise the trust personally, 1, 74.
- to examine trust property and documents, 82, 83.

**DUTY** — *continued.*

- to examine predecessor's accounts, 85, 122.
- to take possession of property, 82-83.
- to convert into trust investments, 89-90.
- to invest, 93.
- in investing is what, 95.
- as to class of investments, 96-100.
- as to testator's business, 95.
- to keep accounts, 77.
- to prosecute suits, 73.
- to support beneficiary, 69.
- to repair, 86.
- to fence, 86.
- to insure, 86, 121.
- to pay taxes, 86.

**EFFECT**, of disclaimer, 4.

**ELECT**, beneficiary may elect to pursue property or trustee, 151.  
may elect damages or property, 142.

**EMBEZZLEMENT**, 120.

**EMPLOYMENT**, of a person is not trust property, 82.

**ENCUMBRANCE**, discharge of apportioned, 113.

**END**, trusteeship how ended, 16, 145.  
of trust discharges trustee, 16.

**ENFORCED**, trust may be where, 140, 155.

**EQUITABLE ESTATE**, 22, 132.

See **ESTATE OF BENEFICIARY**.

**ERRORS**, liability for, 125.

**ESCHEAT**, of equitable estate, 43, 133.

**ESTATE OF BENEFICIARY**, incidents, 132.  
alienation of, 134.

**ESTATE OF TRUSTEE**, is joint, 38.

cannot be severed, 38.

passes to survivor, 39.

not affected by statutes making tenants in common, 39.

in real estate what is needed, 37.

in personal property absolute, 37.

in code states no title, 37.

**ESTOPPEL**, by receipting for securities, 84.

by laches, 149.

EXCHANGE, power to, 61.

EXECUTOR, may be a trustee in fact, 5, 11-12.  
liability of bondsmen for acts as trustee, 5, 12.  
when he becomes a trustee, 12.  
ends executorship and becomes trustee how, 84.  
need not accept trusts in same will, 3, 5.

EXECUTION, of power must be accurate, 50.  
levy of does not affect trust estate, 41.  
trust property may be taken for trust debts, 41.  
equitable estate may be taken on, 134.

EXECUTOR OF TRUSTEE, may inherit trust, 2.  
does not take trust powers, 46.  
duty as to trust estate, 46.  
power to disclaim testator's trusts, 2, 5, 17.  
his duty as to testator's trusts, 17.

EXECUTORY DEVISE, sale of, 56.

EXEMPTION, from furnishing sureties on bond, 10.  
from liability by settlement, 128.

EXPENSES, what are chargeable to income and principal, 117.  
what may be charged to trust fund, 29-30.  
of suit allowed, 29, 63.  
of accounting, 30, 80.  
of protecting beneficiary, 63.

EXTINCTION OF POWER, 53.

EXTINCTION OF TRUST, discharges trustee, 16.  
See END OF TRUST.

FARMING IMPLEMENTS, may be used by whom, 108.  
See CHATTELS.

FARMING STOCK, increase usually income, 108.  
See PERSONAL PROPERTY.

FATHER, see PARENT.

FENCE, duty to, 86.  
cost charged to what, 115.

FIT. See UNFIT.  
a trustee should be fit, 14.  
court ordinarily will only appoint a fit trustee, 15.

FOLLOWING, the trust property into hands of stranger, 150, 151.

**FOREIGN INVESTMENTS**, 99, 157.

**FOREIGN REAL ESTATE**, ancillary trusteeship necessary, 157.

need not be inventoried, 78, 157.

rents from not part of account, 78, 157.

**FOREIGN SECURITIES**, improper investments, 99, 157.

**FOREIGN TRUSTEE**, appointment of, 16, 156.

removal of, 20, 156.

**FORFEITURE** of trustee's estate, effect of, 43.

of equitable estates, 133.

**FRAUD**, in account, 79.

to draw whole fund at once under power to use principal if needed, 67.

what is in sale, 58.

in contract between trustee and beneficiary, use of position is fraud, 72.

presumption of fraud if trustee gets any advantage, 71.

in execution of power, 53.

beneficiary liable for, 124, 154.

may be forced to contribute, 124.

contribution among parties to, 124.

**FURNITURE**, may be used up when, 108.

replaced from income, 108.

See **CHATTELS**.

**GAIN AND LOSS**, usually principal, 106.

on separate transactions not set off, 112, 121, 126.

**GENERAL ASSIGNMENT**. See **ASSIGNMENT**.

**GIFTS**, to trustee, 29, 72.

**GOOD FAITH**, required of trustee, 1, 27, 72, 73.

**GRAVEL**, when income, 107.

**GUARDIAN**, of lunatic or infant trustee, 13, 17.

payment to guardian, 119.

**HEIR OF TRUSTEE**, may have title to trust estate, 2, 44.

does not take trustee's powers, 46.

**HONESTY**, protects when, 126.

not enough alone, 126.

HOUSE, beneficiaries' right to use, 147.

HUSBAND, not proper trustee for wife, 14.

    may be trustee for wife, 14.

IGNORANCE, court will instruct when, 81.

    of duties, no excuse, 125.

ILLEGAL TRUST, cannot be enforced, 141, 155.

IMPLEMENTS, may be used by whom, 108.

    See CHATTELS.

INCAPABLE TRUSTEE, when new trustee in place of, 7.

INCIDENTS, of legal estate, 22.

    of beneficial estate, 132.

    of ownership fall to trustee, 23.

INCOME. See PRINCIPAL AND INCOME.

    investment should produce, 95.

    what is net, 115.

    beneficiary's right to, 143.

    for first year, 144.

    payable when, 144.

    commissions on, 31.

    may be withheld to reimburse trustee, 144.

    may be on condition, 139.

    anticipation of. See RESTRAINT ON ALIENATION.

    accumulated, becomes principal, 108.

    may be collected by one trustee, 75.

INCOMPETENCY, no excuse, 125.

INDEMNITY, trustee may require, 64.

INFANT, may be a trustee, 13.

    infant trustee may be removed, 13.

    effect of infant's being trustee, 13.

    no conversion in trust for, 92.

    right to support. See SUPPORT.

    payments to, 70, 119, 125.

INFORMATION, beneficiary is entitled to, 143.

    strangers not entitled to, 120.

    need not give to stranger at beneficiary's request, 120, 143.

INJUNCTION, breach of trust may be enjoined, 141.

INNOCENT PURCHASER. See PURCHASER FOR VALUE.

INSANE, expense of suit to establish allowed, 63.

INSANE PERSON. See LUNATIC.

INSANE PERSON, right to support. See SUPPORT.

INSOLVENCY. See BANKRUPTCY.

INSTRUCTIONS, bill for lies when, 82.  
    should not be sought by fictitious account, 82.  
    trustee may get when, 81, 82.  
    as to distribution, 118.

INSURANCE, duty to insure, 86.  
    liable for neglect of, 121.  
    premiums charged to whom, 116.  
    proceeds, apportioned how, 115.

INTEREST, charged, for not investing, 93.  
    for breach of trust, 142.  
    simple and compound, 93, 127, 142.

INTEREST ON INVESTMENTS, apportioned when, 112.  
    on bonds bought at premium apportioned, 112.

INTERESTED, who are, 10, 131.  
    persons having possibility not, 131.  
    holders of general power of appointment not, 131.  
    person who may receive income at trustee's pleasure not, 135.  
    potential payee in spendthrift trust, 66, 131, 138.  
    person may have trustee appointed, 141.

INTER-STATE LAW, 155.

INVALID TRUSTS, 141, 155.

INVESTMENT, duty to make, 93.  
    sound discretion must be used in, 99.  
    investments, in discretion of trustee means what, 95.  
    soundness determined by facts at time of investing, 99.  
    must produce income and be safe, 95.  
    what are proper, 66.  
    English rule, 96.  
    American rule, 96, 97, 98.  
    improper ones, 98-99.  
    proportion in one security, 99.  
    gain on one does not balance loss on another, 112, 121, 126.  
    allowed in various States, 100 to 103.  
    should be changed when, 94.  
    of testator, not always to be converted, 90-91.

IRREGULAR SALE, aided when, 58.  
    purchaser takes risk of, 59.

JOINDER, of whom as parties, 23, 48, 64.  
JOINT, execution of powers necessary, 48.  
JOINT BOND, makes trustees liable for co-trustee, 122.  
JOINT TENANTS, trustees are, 38.  
    beneficiaries are not, 132.  
    may be forced to act jointly, 132.  
JOINT TRUSTEES, survivorship, 38, 43, 46.  
    must exercise trust jointly, 46, 47, 48.  
    liability joint and several, 121, 122.  
    must sue jointly, 64.  
    when liable for co-trustees, 121-129.  
    right to contribution, 124.  
JUDGMENT, trustee must use good, 126.  
JURISDICTION, what courts may appoint trustees, 8, 155.  
    where trust can be enforced, 140, 155.  
    what court may remove a trustee, 19, 140.

LACHES, rights of beneficiary lost by, 148, 149.  
LAND, VACANT, should be converted, 90.  
    taxes on charged to principal, 115.  
        See REAL ESTATE.  
LANDLORD, beneficiary cannot deny trustee's title as land-  
    lord, 38, 146.  
LEASE, power is general and incidental to office, 61.  
    what bind the estate, 61-62.  
    building lease, 62.  
    trustee is liable on covenants, 25, 63.  
LEASEHOLDS, improper investments, 98.  
LEGAL ESTATE. See ESTATE OF TRUSTEE.  
LEGAL EXPENSES, charged to trust fund, 29, 117.  
LET. See LEASE.  
LIABILITIES, to beneficiary, 121 to 128.  
    joint and several, 121.  
    excused from by trust instrument, 126.  
    for acts of predecessor, 80, 83, 122.  
    for acts of co-trustee, 122, 123, 124.  
    for not investing in particular stock, 94.  
    for neglect of duty, 93, 121, 123.  
    for allowing rent to fall in arrears, 121.

**LIABILITIES** — *continued.*

- for errors, 125.
- for use of discretionary power, 69, 126.
- for care of securities, 87, 88, 89.
- for payment of share to beneficiary, 118.
- for payment to wrong person, 125.
- for distribution of fund, 117.
- to strangers, 26, 120.
- trustee is liable as owner of property, 26.
- trustee is liable as stockholder in corporation, 24.
- for misrepresentations, 84, 120.
- on contract, 120-124.
- trustee liable on contract of sale not enforceable in equity, 59.
- trustee is liable on covenants in deed, 25, 120.
- trustee on covenants in lease, 25, 63, 120.
- criminally, 120.
- criminal. See **CRIMINAL LIABILITY**.
- ends on death, 121.
- terminated, 128.

**LIABILITIES, OF BENEFICIARY**, 153.

- for taxes, 154.
- for fraud, 154.
- inducing breach of trust, 124, 154.

**LIEN**, beneficiaries on trust property, 149, 150.

- trustee's for expenses, 30.
- trustee's for his charges, 119.
- mechanic's lien attaches when, 41.

**LIFE TENANT AND REMAINDERMAN**, for respective rights. See **PRINCIPAL AND INCOME**.

- trustee's duty to in investing, 95.

**LIMITATIONS**, if trustee barred by statute there is no remedy, 24.

- when statute runs for trustee, 128, 133, 149.
- statute runs after decree of distribution, 118.
- statute of, discharges trustee's liabilities, 128.
- statute runs for breach of trust when, 149.

**LOAN**, on personal security not proper investment, 98.

- cannot loan trust funds to self, 27-28, 120.
- or to relative or partner, 28.

LOSS. See GAIN AND Loss.  
· by breach of trust, principal, 113.  
liability for, 124, 125.  
of rights by beneficiary, 140, 147, 149.

LUNATIC, may be a trustee, 13.  
may be removed, 13, 19.  
effect of lunatic's being trustee, 13.  
expense of declaring, 29.  
duty to, 69, 70.

LUXURIES, allowed when, 68.

MAINTENANCE, power of. See SUPPORT.

MAKER OF TRUST. See SETTLOR.

MANAGEMENT OF TRUST PROPERTY, 82.  
See TABLE OF CONTENTS, pp. xiv, xv, xvi.

MANAGING TRUSTEE, 74, 75, 76.  
cannot exercise all powers, 74.

MARRIED WOMAN, status of, 71.  
settlement on self, 139.  
restriction as to income, 136.

MEASURE OF DAMAGES. See DAMAGES.

MECHANIC'S LIEN, attaches to trust property when, 41.

MINOR. See INFANT.

MISMANAGEMENT, is cause for removal, 19.  
liability for, 125.

MISREPRESENTATION, liability for, 84, 120.

MISTAKE, if honest, not a cause for removal, 21.  
liability for, 125.  
account may be re-opened for, 79.

MONEY, single trustee may collect, 75.  
can be followed, 151.  
care of, 87.

MORTGAGE OF TRUST PROPERTY, not general power,  
60.  
power implied, 60.  
court will not order, 60.  
power of sale does not include, 60.  
power of sale mortgage implied, 61.

MORTGAGES, bonds may not be, 95.  
    railroad bonds not investment in, 95.  
    second not proper investment, 98.  
    margin of security, 99-100.

MOTHER. See PARENT.

NEED, what is, 67-68.  
    court will not control discretion as to, 68.  
    drawing whole fund at once a fraud, 69.  
NEGLECT, to disclaim implies acceptance, 6.  
    to examine, trust securities, 89.  
    trustee liable for, 121, 122.  
    to claim rights estops beneficiary, 149.

NEGOTIABLE SECURITIES, care of, 88.  
NET INCOME, defined, 115.  
    ascertained when, 143.

NON RESIDENT TRUSTEES. See FOREIGN TRUSTEES.  
    may or may not be removed, 20.  
    will not be appointed when, 16.

NOTICE, to obligor or chose, should be given when, 85.  
    of prior equity, required when, 134, 135.  
    effect on priorities in equitable estate, 135.  
    what is, 135.

NOTICE OF TRUST, what is, 40, 60, 152.  
    word "trustee," 40, 152.  
    purchaser with, 150.

NUISANCE, trustee is liable for nuisance on trust property, 26.  
    beneficiary not liable for, 154.

OFFICE, expense of charged to whom, 30.

OFFICE OF TRUSTEE. See TRUSTEESHIP.

ONE TRUSTEE. See SINGLE TRUSTEE.

OWNERSHIP, of trust property belongs to trustee, 22, 131-132.  
    of trust property does not belong to beneficiary, 22.  
    in equity, considered to be in beneficiary, 132.  
    incidents of fall to trustee, 23.  
    not beneficial to trustee, 26, 27.

PARENT, is unfit trustee, 14.  
duty to support child, 70.  
support of child may include parent, 68, 70.  
payment to for child, 70, 71, 119, 125.

PARTIES TO SUIT, who are necessary, 64.  
beneficiaries generally not necessary parties, 23.  
are sometimes, 23.  
to suit for removal, 19.  
to suit for appointment of trustee, 8.

PARTITION, estate of trustees is not subject to, 38.  
power to, 61.

PARTNERSHIP, improper investment, 98.  
should be converted, 89.  
may be authorized investment, 95.  
profits partly principal when, 105.

PASSIVE TRUSTEE, duty of, 38.  
none at law, 74-75.

PAYMENT, by debtor, to single trustee, 75.  
of share to beneficiary before end of trust, 118.  
by mistake beneficiary not required to refund, 154.  
to infant, 70, 119, 125.  
to attorney, 119.  
to wrong person, 117, 119, 125.  
to wrong person, beneficiary may recover, 152.

PERSON, of bad habits may be removed from office, 20.

PERSONS, who are beneficially interested. See INTERESTED.

PERSONAL, a trust is a personal confidence, 74.

PERSONAL LIABILITY. See LIABILITY.

PERSONAL PROPERTY, conversion into real, 91, 92.  
not converted when meant to be enjoyed in specie, 91, 108,  
147.  
taking possession of, 84, 85.  
who entitled to possession, 38, 86, 91, 108, 147.

PERSONAL REPRESENTATIVES OF SOLE TRUSTEE,  
cannot disclaim decedent's trusts, 2, 17.  
of deceased trustee may be invested with trust estate, 2, 17,  
43-44.  
of deceased trustee does not succeed to trust powers, 17, 46.  
of deceased trustee, duty as to trust estate, 17, 46.

PLEDGE. See MORTGAGE.

POSSESSION, of beneficiary is that of trustee, 38, 153.

**POSSESSION OF PERSONAL PROPERTY,**

the taking of, 84-85.

who has right to, 38, 86, 147.

**POSSESSION OF REAL ESTATE**, taken how, 83.

who has right to, 38, 147.

**POSSESSION OF TRUST PROPERTY**, trustee is entitled to at law, 38.

beneficiary may be entitled to in equity, 38.

should be taken at once, 82-83.

**POSSIBLE PAYEE**, interested in appointment of trustee, 10, 66, 141.

but has no interest in trust, 66, 131, 135, 138.

**POVERTY OF TRUSTEE**, not always cause for removal, 20.**POWERS**, general principles, 44.

incidental to the office of trustee, 45-47.

the court can grant, 45.

the legislature can grant, 45.

specially given by the instrument, 46.

general and special, vesting when and when not, 46-47.

must be exercised by all jointly, 47, 48.

when lost by disclaimer of one trustee, 4.

exercise of discretion is essential part of, 47.

execution must be joint, 48.

exception as to collecting money, 48.

to act by agent or attorney, 49.

execution must be exact, 50.

partial execution may not exhaust, 49.

but may sometimes, 53-54.

defective execution aided for purchaser, 50.

defective sale confirmed, 58.

substantial execution aided, 50.

literal execution necessary when, 50.

court controls execution when, 51, 52.

execution set aside for fraud, 52, 53.

of single trustee, 75.

pass to successors, 46.

and survivors when, 46-47.

of sole trustee, vest in successor not in heirs, 46.

fraud in execution of, 53.

exhausted how, 53, 54.

extinction of, 53.

POWERS — *continued.*

- cease when trust is accomplished, 53.
- liability for exceeding, 125.
- not liable for use of discretionary, 126.
- of sale are not incidental, 45.
- of sale, 55. See **SALE**.
- of support, 65-66.
- to contract, 64.
- of compromise, 64.
- of revocation, 69.
- of arbitration, 64.
- to lease, 61.
- of partition, 61.
- to mortgage or pledge, 60, 61.
- of exchange, 61.
- to convert real into personal property, etc., 91, 92.
- to appoint new trustee when, 6, 7.
- to appoint trustee in whom, 7, 12.

**POWER OF APPOINTMENT**, holder of is not a beneficiary, 131.

- if general power exercised creditors of holder take, 135.
- otherwise where power is special, 135.
- who administers estate where general or special, 12.

**POWER OF ATTORNEY**, payment on invalid power, 119.

- trustee cannot give a general one, 49, 76.
- may give special power, 49, 76.

**PREJUDICED TRUSTEE**, may be removed, 20.**PREMIUM ON BOND**, reduced by sinking fund, 112.

- bond selling at not necessarily converted, 90.
- purchase of bonds selling at premium and discount to balance improper, 112.

**PREMIUMS**. See **INSURANCE**.**PRINCIPAL AND INCOME**, what is, 104-113.

- importance of distinguishing, 104.
- gain and loss on securities, 106, 113.
- discharge of encumbrance, 113.
- accumulated income, 109.
- timber and gravel are what, 107.
- farming stock, 108.
- dividends are what, 109-111.
- extra dividends, 109.

**PRINCIPAL AND INCOME** — *continued.*

- stock dividends, 109-111.
- interest apportioned when, 112.
- interest on bonds bought at premium, 112.
- repairs, 114.
- alterations and additions, 114.
- betterments, 115.
- taxes, 115.
- insurance, 115.
- expenses, 117.
- broker's charges, 117.
- legal expenses, 117.
- support of beneficiary, 66, 70.
- apportionment on conversion, 104.
- apportionment at end of life estate, 113.
- right of single trustee to handle, 48, 75, 87.

**PRIORITY**, among transferees of equitable estate, 134.**PROBATE COURTS**, proper place to file disclaimer under will, 3.

- appointment of trustee under will, 7.

**PROFIT**, trustee cannot make profit from trust, 28.**PROMISE**, to accept trust not binding, 2.**PROPERTY**, trustee should examine, 1, 82, 83.

- what may be trust property, 82.
- vests in trustee how, 9, 83, 84.
- the trustee's estate in, 37.
- trustee cannot take any benefit from, 27.
- ownership of trust property belongs to trustee not beneficiary, 22.
- beneficiary no claim on, 131. •
- may follow into hands of stranger, 151.
- unproductive should be converted, 89-90.
- but not property to be used in specie, 91.
- beneficiary's right to possession of, 38, 86, 91, 108, 147.
- beneficiary's right to conveyance of, 145-146.
- passes to successor how, 43.
- passes to remainderman how, 42.
- trustee cannot use trust property, 27.
- care and custody of, 86.
- of trust may be taken for trust debts, 41.
- replaced when, 127.

**PURCHASER**, trustee cannot buy trust property, 27, 58, 128.  
from beneficiary, rights of, 134.  
must see to application of purchase money when, 59, 60.  
takes risks of regularity, 59.

**PURCHASER FOR VALUE WITHOUT NOTICE**, 39, 150.  
who is and is not, 39-40.

**PURCHASE MONEY**, purchaser must see to when, 59, 60.

**REAL ESTATE**, trustee takes only necessary title in, 37.  
title should stand in joint names, 38.  
who entitled to possession, 38, 147.  
taking possession of, 83.  
unproductive improper investment, 98.  
unproductive should be converted, 90.  
duty to improve, 86.  
care and custody of, 86.  
repairs charged to what, 114.  
alterations and additions charged to principal, 114.  
conversion into personal, 91-92.  
foreign, 78, 157.

**REAL SECURITIES**, what are, 95.  
railroad bonds not, 95.

**RECEIPT**, must be joint in equity, 48.  
of one trustee, sufficient when, 48.  
trustee bound by when, 84.  
liability for joining in, 122, 123.

**RECEIVER**, appointed when, 6, 142.

**RECORD**, deed should be recorded, 83.

**REFUND**, beneficiary need not, 154.  
beneficiary disaffirming sale must refund consideration, 58, 142.

**REFUSAL OF TRUST**. See **DISCLAIMER**.

**REGISTERING BONDS**, when proper, 88, 89.

**REGULARITY OF TRUSTEE'S APPOINTMENT**, not questioned when, 16.

**REIMBURSEMENT**, 29.  
for expenses of suit, 29, 63.  
for expenses of accounting, 30, 80.  
for payment to beneficiary, 144.

**RELATION**, is not a fit trustee, 14.

**RELATIONSHIP**, between trustee and beneficiary, 1, 2, 71.

**RELEASE**, discharges liabilities, 128.

    by beneficiary, 147, 148.

**REMAINDERMAN**, title vests in without conveyance, 42.

    conveyance to when, 119.

**REMOVAL**, is in discretion of court, 19.

    will remove for what, 19-20.

    will not remove for what, 20-21.

    of absentee trustee, 20, 156.

    lunatic trustee may be removed, 13.

    infant trustee may be removed, 13.

**RENT**, is income, 112.

    apportioned when, 113.

    liable for allowing to fall in arrears, 121.

**REPAIR**, duty to, 86.

**REPAIRS**, charged to what, 114.

**REPRESENTATION**, of one trustee not binding, 64.

    liability for misrepresentation, 84, 120.

**RESIGNATION**, 18.

    must be accepted by all, 18.

    or by the court, 18.

    must resign whole trust, 18.

    may resign independent trusts under same instrument, 19.

**RESTRAINT**, on alienation, 136-139.

    valid in some States, 137.

    not valid in others, 138.

    married women, 136.

    by spendthrift trust, 138.

**RETIREMENT OF TRUSTEE**. See **DEVESTMENT OF OFFICE**.

**REVOCATION**, power of inserted in settlement in England not in America, 69.

    by using discretion to draw whole fund fraud, 67, 69.

**SAFETY**, a necessary feature of investment, 95.

**SALE** of contingent remainders and executory devises, 56.

    power of not incidental to office, 54.

    power usually specially given, 54.

    power of implied from a given duty, 55.

SALE — *continued.*

- power under statutes, 55.
- under *cy près* doctrine, 56.
- may be ordered by special law, 56.
- by order of court, 57.
- management of, 57.
- irregular, 58.
- purchaser takes risk of regularity of, 59.
- purchaser's responsibility for purchase money, 59, 60.
- unauthorized confirmed when, 57.
- trustee cannot purchase at, 27, 58, 128.
- cannot sell to relative or partner, 27.
- to trustee, damages, 128.
- disaffirmed consideration must be returned, 58, 142.

SECURITIES, duty to convert into trust investments, 89.

- right to possession of, 147.
- beneficiary may examine, 143.
- care of negotiable and non negotiable, 88.
- must not release, 74.

## SERVICES. See COMPENSATION.

SET OFF, trustee can not set off private debts against creditor of trust, 27.

- by whom and when, 42.
- trustees' set off against beneficiary, 134, 154.

SETTLEMENT, should examine, 1, 83.

- on self, peculiarities of, 135, 139.

SETTLOR, may appoint unfit trustee, 15.

- cannot restrain self from alienation, 139.

## SIGNATURE "AS TRUSTEE," effect of, 25, 65, 120.

SINGLE TRUSTEE, may do what alone, 75, 76.

- may collect money, 48, 75, 87.
- may handle income not principal, 75, 87.
- may be entrusted with securities when, 87, 88.
- representation of not binding, 64.
- demand of sufficient, 64.

## SINKING FUND, for bonds purchased at premium, 112.

## SOLE TRUSTEE, on death of trust vests in successor, 43, 44, 46.

## on death of title passes to whom, 2, 43, 44, 46.

## SOVEREIGN, may be a trustee, 13.

**SPECIAL LAW**, sale under, 56.

**SPECULATION**, with trust funds improper, 27.

**SPECULATIVE**, investments improper, 99.  
what are speculative investments, 89, 90, 98.  
investments should be converted, 89-90.

**SPENDTHRIFT TRUSTS**, 66, 138.  
interest of possible payees, 66, 131, 138.

**STATUTE**, may provide for sale of trust property, 55, 56.  
. of limitations. See **LIMITATIONS**.

**STOCK**. See **FARMING STOCK**.

**STOCK**, certificate should stand in joint names, 85.  
should indicate trust on their face, 85.  
as an investment, 97, 98.  
dividends of belong to whom, 109, 110.  
liability for transfer of, 152, 153.

**STOCKHOLDER IN CORPORATION**, trustee is, 24.  
beneficiary is not, 24, 154.  
trustee is liable as, 24.  
beneficiary is not, 24, 154.

**STRANGER**, property followed into hands of, 150, 151.  
aiding in breach of trust liable, 149, 150, 152, 153.  
cannot require information from trustee, 143.  
trustee's liability to. See **LIABILITIES**.

**SUBPOENA**, where had, 140, 155.

**SUCCESSOR**, not liable for acts of predecessor, 122.  
should examine predecessor's accounts, 83, 85.  
not bound to receive property tendered, 83.  
effect of taking the property, 128, 129.  
gets title how, 10, 43.

**SUIT**, trustee has general power to sue and defend, 23, 63.  
duty to press, 73, 85.  
necessary parties to, 23, 64.  
admissions in are binding when, 64.  
compromise of, 64, 74.  
expense of allowed, 63.  
beneficiaries' rights in actions, 23-24.  
concerning trust property, 131, 153.  
beneficiary may sue or defend in trustee's name, 141, 153.  
against trustee, in what jurisdiction, 140, 155.

**SUPPORT, 65.**

- power and duty to support beneficiary, 69, 144.
- when others have duty, 70.
- trustee's discretion as to quantity, 67, 68, 69.
- when court will review discretion, 67.
- from principal and income, 66, 67.
- how apportioned among beneficiaries, 68.
- special power often given, 66.
- usually discretionary, 66.
- possible recipient not interested in trust, 66.
- of beneficiary or family in spendthrift trusts, 138.

**SURETIES, may be required on trustee's bond, 10.**

- on bonds of executor, liable for acts as trustee when, 5, 12.
- expense of surety company allowed, 29.

**SURVIVING TRUSTEE, office passes to survivors, 38.**

- takes title on death of trustee, 43.

**TAXES, duty to pay, 86.**

- trustee is personally liable, 25.
- where taxes are payable, 25, 158.
- beneficiary may be liable for, 154.
- how apportioned, principal or income, 115.

**TENANT, should attorn to new trustee, 84.****TENANTS IN COMMON, trustees are not, 38.****TEMPORARY TRUSTEE, appointed when, 6.****TERM, of lease trustee may grant, 61, 62, 63.****TERMINATION OF TRUST, 16.**

- by conveyance to beneficiary, 145, 146.
- commissions on, 32, 119.

**THINGS, trusts for, 130.****TIMBER, when income or principal, 107.****TITLE, trustee takes absolute to personal property, 37.**

- trustee takes none in code States, 37.
- trustee takes what estate is necessary in real estate, 37.
- to property should stand in joint names, 83, 85.
- vests in others, on disclaimer of one, 4.
- to property necessary to complete appointment, 9.
- may vest by provisions of settlement, 9.
- decree for conveyance to new trustee, 10, 83.

**TITLE** — *continued.*

may vest in new trustee by statute, 10.  
to property, how it passes to successor, 10, 43.  
passes to remainderman how, 42, 119.

**TORT**, beneficiary not liable in, 154.  
trustee liable in tort, 26, 120.

**TRACING**, trust property into hands of stranger, 150, 151.

**TRANSFER OF PROPERTY**, to new trustee, 9, 10, 84.  
to remainderman. See **REMAINDERMAN**.

**TRANSFER OF STOCK**, liability for, 152, 153.

**TRANSFER OF TRUST PROPERTY**. See **ALIENATION**.

**TRANSMISSION OF ESTATE**, on death of trustee. See  
“**DEATH**.”

**TRUST**, differs from agency, 23.

may be refused. See **DISCLAIMER**.  
will not fail for want of trustee, 6.  
cannot be delegated, 74.  
enforced where, 140, 155.

**TRUST COMPANY**, may be a trustee, 13.

advantages and disadvantages of, 15.

**TRUST PROPERTY**. See **PROPERTY**.

**TRUST TERMINATED**, 16, 145, 146.

**TRUSTEE**, can refuse. See **DISCLAIM**.

cannot abandon trust, 17.  
may resign. See **RESIGNATION**.  
removal of. See **REMOVAL**.  
temporary trustee may be appointed, 6.  
appointment of. See **APPOINTMENT**.  
executor performing such duties is a trustee, 11.  
any person intermeddling is trustee, 11.  
who of two sets of trustees is entitled to act, 12.  
who can be, 13-15.  
should be capable, 13.  
who is unfit to be, 14.  
must exercise trust himself, 48, 49, 74.  
managing and passive trustees, 74-75, 76.  
is owner of trust property, 22-23.  
the estate of. See **ESTATE** and **TITLE**.  
right to possession of property. See **POSSESSION**.  
can take no benefit from ownership, 26-27.

**TRUSTEE** — *continued.*

- cannot purchase at sale, 27, 58, 128.
- good faith required, 72, 73.
- cannot have adverse interest, 73.
- contracts with beneficiary, 71, 72.
- gifts from beneficiary, 72.
- may act as counsel, attorney or broker when, 28, 72.
- must keep accounts. See **ACCOUNTS**.
- powers. See **TABLE OF CONTENTS**, pp. xi, xii.
- duties. See **TABLE OF CONTENTS**, pp. xiii to xvi.
- compensation. See **COMPENSATION**.
- his expenses. See **EXPENSES**.
- liabilities. See **LIABILITIES**; also **TABLE OF CONTENTS**, p. xvi.
- may get instructions of court. See **INSTRUCTIONS**.
- single trustee may do what. See **SINGLE TRUSTEE**.
- death of. See **DEATH AND EXECUTOR**.
- is discharged how, 16-21.

“ **TRUSTEE**,” on certificate is notice, 40, 152.

**TRUSTEE**, signature “ as trustee ” effect, 25, 65, 120.

**TRUSTEESHIP**, not always desirable, 1.

- is a relationship, 1, 69.
- not an agency, 1, 23.
- is a personal confidence, 74.

See **DELEGATE**.

- cannot be abandoned, 17.
- may be resigned, when and how, 17, 18.
- removal from when, 19-21.
- passes to whom. See **SUCCESSOR** and **DEATH**.
- may be ended how, 19-21, 145.

**UNAUTHORIZED SALE**. confirmed when, 57.

**UNDIVIDED PROPERTY**, should be converted, 90.

**UNDUE INFLUENCE**. See **FRAUD**.

**UNFAITHFUL TRUSTEE**, may lose compensation, 32.

**UNFIT TRUSTEE**, when new trustee in place of, 7.

- who is unfit to be a trustee, 14.

- may be appointed by creator of trust, 15.

**UNFRIENDLY TRUSTEE**, may be removed, 20.

**UNPRODUCTIVE PROPERTY**, should be converted, 89-90.  
converted, is partly income, 105.

**USE**, beneficiary's right to use trust property, 38, 86, 91, 108,  
147.  
trustee cannot use, 27.

**VACANT LAND**, should be converted, 90.  
taxes on how chargeable, 115.

**VESTING OF TITLE TO PROPERTY**. See **TITLE**.

**VOTE**, beneficiary not qualified to as owner, 132.  
trustee votes as stockholder, 24.

trustee enjoined from voting against beneficiary's interest,  
142.

**WASTE**, cause for removal of trustee, 19.

**WASTING INVESTMENT**, dividends on apportioned, 109.  
should be converted, 90.

**WIFE**, may be trustee for husband, 14.

**WILFUL BREACH OF TRUST**, cause for removal, 19.



